

**Business Model Innovation: How Incumbent
Organizations Adopt Dual Business Models**

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The President:

Prof. Dr. Thomas Bieger

Dedicated to my family.

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List of Abbreviations

AG	joint stock company (Ger.: Aktiengesellschaft)
ASA	joint stock company (Nor.: allmennaksjeselskap)
abbr.	abbreviation
BBC	British Broadcasting Corporation
BM	business model
BMI	business model innovation
BFS	Swiss Federal Statistical Office
CEO	chief executive officer
ced.	complete edition
cf.	confer to
cit.	citation
DIY	do-it-yourself
etc.	et cetera
e.g.	for example (Lat.: <i>exempli gratia</i>)
EJDP	Federal Department of Justice and Police
ESA	event structure analysis
ESR	enactment, selection, retention
et sqq.	and the following
FNP	free newspaper
FTE	full-time equivalent
ICV	internal corporate venturing
IFRA	research/service organization for the news publishing industry
incl.	including
i.e.	that is (Lat.: <i>id est</i>)
MIRP	Minnesota Innovation Research Program
MTG	Modern Times Group
n.s.	not specified
NP	newspaper

NZZ	New Zürich Times (Ger.: Neue Zürcher Zeitung)
p.	page
pp.	pages
RGEB	Ringier group executive board
S.A.	joint stock company (Fr.: société anonyme)
SBB	Swiss Federal Railways (Ger.: Schweizerische Bundesbahnen)
vs.	versus
VSR	variation, selection and retention
WEMF	Swiss industry body for media measurement
WAN	World Association of Newspapers
ZVV	Zurich public transport association

Abstract

Case-based evidence suggests that, on average, firms seeking to innovate and pursue two business models simultaneously will eventually fail. However, this contravenes with the literature's perception of business model innovation as a desirable means to address disruptions shifting the basis of both value creation and capturing. Moreover, management and organization research provides little evidence as to how incumbents can actually achieve innovation of their business model beyond the innovation-funnel logic. Recent business model studies have therefore suggested paying more attention to the under-researched drivers of this specific complex social process.

Based on gaps identified in the present literature, this dissertation investigates three particular aspects of a business model innovation project in an incumbent organization: First, the generative mechanisms that drive business model innovation; second, the relevance of managerial cognition and the cognitive aspects of the business model; and third, the relationship arrangement to accommodate the new and existing business model over the course of the innovation process. Based on an abductive logic of discovery, this study builds on existing process theories to elaborate a process model of business model innovation in an incumbent context. An intensive process case-study design serves to identify what mechanisms are operating to produce business model innovation and how they relate to one another. Event structure analysis is used to analytically connect actors and activities traced over a twelve-year period for two innovation initiatives at a single case site (RINGIER Media Corp.) with generative mechanisms.

This dissertation adds to the academic literature in three ways: First, it contributes to business model studies by elaborating on existing process theory with a proposal for two empirically grounded tri-mechanism process model configurations of business model innovation in an incumbent context. Second, it proposes preliminary insights into the theory on cognition and organizational change regarding the role of the variables activated in mental models to make sense of a new business model and the relationship of those variables to threat or opportunity framing. Finally, it contributes to the literature on organizational ambidexterity by elucidating two mechanisms that drive the level of integration between a new and existing business model over time. These findings provide practical implications for senior managers and innovation champions who wish to develop, manage, and legitimize business model innovation efforts in an incumbent context.

Zusammenfassung

Fallstudienbasierte Analysen kommen zum Schluss, dass etablierte Unternehmen im Durchschnitt scheitern, wenn sie versuchen gleichzeitig zwei Geschäftsmodelle, ein bestehendes und ein neues, zu betreiben. Diese widerspricht jedoch der Wahrnehmung von Geschäftsmodellinnovation in der Literatur. Dieser Innovationstyp gilt als geeignetes Mittel zur Adressierung von Disruptionen, welche die Basis der Wertschaffung und Wertschöpfung in einem Markt verändern. Generell bietet die Management- und Organisationsforschung wenig Anhaltspunkte dazu, wie ein etabliertes Unternehmen – über die Logik des Innovationstrichters hinaus – sein Geschäftsmodell erneuern kann. Aktuelle wissenschaftliche Publikationen schlagen daher vor, den vernachlässigten Treibern dieses komplexen sozialen Prozesses mehr Beachtung zu schenken.

Auf der Basis von Forschungslücken in der Literatur untersucht diese Dissertation drei Aspekte des Geschäftsmodellinnovationsprozesses etablierter Unternehmen: Erstens, die Mechanismen die diesen Innovationstyp antreiben; zweitens, die Relevanz der Kognition von Managern und der kognitiven Dimension von Geschäftsmodellen; und drittens, die Art und Weise der Festlegung des Beziehungen zwischen dem bestehenden und neuen Geschäftsmodell entlang des Innovationsprozesses. Die vorliegende Studie stützt sich auf bestehende Prozesstheorien, um ein Prozessmodell für Geschäftsmodellinnovation im Kontext bestehender Unternehmen abduktiv herzuleiten. Die Identifikation von Mechanismen sowie deren Beziehungen stützt sich auf ein intensives Prozessfallstudiendesign. Mittels einer Eventstrukturanalyse wurde der analytische Bezug zwischen Aktivitäten von Schlüsselakteuren im Innovationsprozess, die für ein einzelnes Unternehmen (RINGIER AG) über zwei Innovationsprojekte und 12 Jahre hinaus verfolgt wurden, und bestehenden Prozesstheorien hergestellt.

Die vorliegende Dissertation trägt in dreifacher Weise zum wissenschaftlichen Diskurs bei: Erstens, durch die Ausarbeitung zweier empirisch basierten Prozessmodellkonfigurationen; zweitens, durch Erkenntnisse über die Rolle der Variablen, die als Teil mentaler Modelle aktiviert werden, um ein Geschäftsmodell zu interpretieren sowie deren Beziehung zum Framing als Chance oder Gefahr; und drittens, durch die Identifikation von zwei spezifischen Mechanismen, welche das Mass an Integration zwischen dem bestehenden und neuen Geschäftsmodell über den Verlauf des Innovationsprozesses beeinflussen. Diese Resultate haben praktische Implikationen für das Topmanagement und Innovations-Champions, die in bestehenden Unternehmen Initiativen für Geschäftsmodellinnovation entwickeln, managen oder legitimieren wollen.

A The research setting

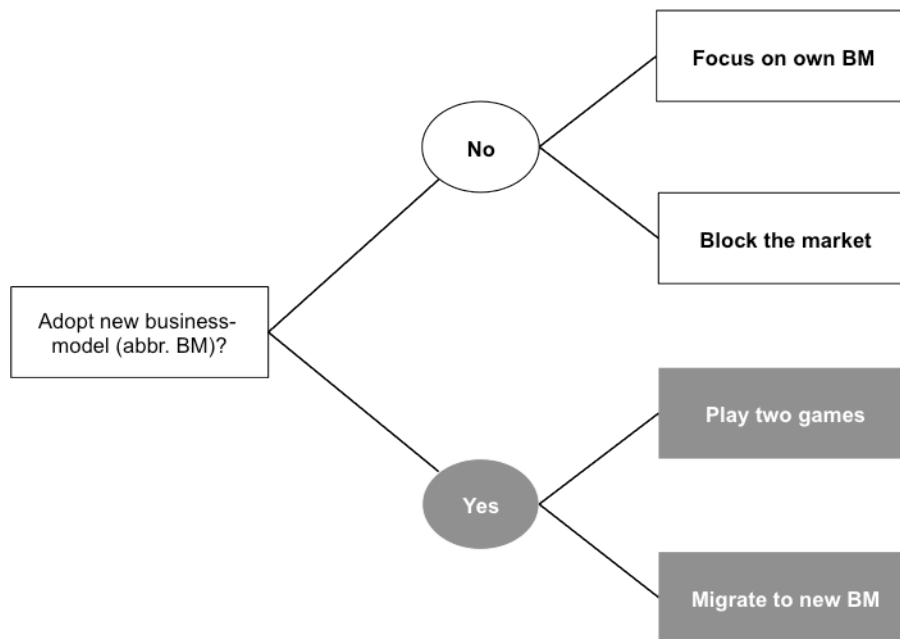
1 Introduction

1.1 The phenomenon described

The market entry of new competitors into an established market rarely goes unnoticed by incumbent organizations – especially if the entrants choose to compete in new ways (Burgelman & Grove, 2007b) by shifting the basis of with what and how value is created and captured simultaneously (Teece, 2010). The new way in which business is organized (Schumpeter, 1934) that identifies the logic of how value is created and captured is referred to as business model innovation (Casadesus-Masanell & Zhu, 2013).

Many different industries have seen their market space invaded by new entrants who built their competitive advantage on a new business model (Teece, 2010): For example, in the media industry, newspaper publishers like the GUARDIAN MEDIA GROUP and EDIPRESSE are being challenged by free newspapers and online news (Markides & Oyon, 2010) and brick-and-mortar book and record stores are confronted by Internet warehouses like AMAZON and download services like iTUNES and AUDIBLE (Johnson, Christensen, & Kagermann, 2008; Raff, 2000). In transportation, no-frills airlines have attacked traditional airlines like LUFTHANSA and BRITISH AIRWAYS (Charitou & Markides, 2003), and car sharing concepts like CAR2GO and ZIPCAR question the value proposition of traditional automotive manufacturers in metropolitan areas (Johnson, 2010). Finally, in retailing, new online and home-delivery offers for grocery shopping challenge traditional supermarket chains like WAITROSE and SAINSBURY'S (Markides & Oyon, 2010). All of these new business models are enabled by new insights about customer needs and preferences, new technologies, or changes in regulatory regimes (Teece, 2010).

Figure 1 illustrates that incumbent organizations faced with a new business-model “invading” parts of their market are presented with a range of strategic options to address the potential threat to their main business (Markides, 2008; Markides & Charitou, 2004): They may either *focus* on their existing business-model and/or try to block the market (e.g., by means of competitive action, law suits or patents), or *adopt* a new business-model alongside their existing one (“play two games”) or, even more radically, completely migrate to a new business-model .

Figure 1: Strategic options in light of a new business model

Source: Adapted from Markides (2008) and Markides and Charitou (2004).

While there are situations in which it might be perfectly reasonable for an established industry leader to focus on its own business-model (cf. Markides, 2006), this dissertation is about those companies that choose to innovate and manage to adopt a new way of creating and capturing value simultaneously, also referred to as operating dual business models (Markides & Charitou, 2004).

Empirical observation suggests that these cases are rare exceptions. Spurred by the business success of new entrants, incumbents try to establish the new ways of creating and capturing value alongside their existing business (Casadesus-Masanell & Zhu, 2013). BRITISH AIRWAYS and LUFTHANSA, for example, belong to this type of company. Both incumbents chose to develop a low-cost airline of their own (“GO” by BRITISH AIRLINE and “LUFTHANSA EXPRESS”) (Graf, 2005). Yet, in spite of both established organizations’ experience in the airline business, slack resources, and other “incumbent advantages” (Iansiti, McFarlan, & Westerman, 2003), both new business models were eventually withdrawn from the market (Gillen & Gados, 2008; Graf, 2005; Vlaar, De Vries, & Willenborg, 2005).

The failure of leading firms in innovating the basis of value creation and value capture simultaneously seems to be the rule rather than the exception (Johnson, et al., 2008). Case-based evidence suggests that, on average, firms seeking to innovate and pursue two business-models simultaneously will eventually fail (Markides, 2008;

Markides & Oyon, 2010). However, this contravenes articles in scholarly and managerially oriented publications, which generally agree that business model innovation is a preferable means to address this type of market disruption (e.g., Johnson, et al., 2008; Pohle & Chapman, 2006; Teece, 2010; Voelpel, Leibold, Tekie, & von Krogh, 2005).

These publications point out that incumbent organizations seem to have faced this type of disruption, i.e., events that challenge the core assumptions of their existing business activities, more frequently in the past few decades (e.g., D'Aveni, 1995; Hamel, 2000; Johnson, 2010). In addition, changes in regulatory regimes, technological progress, and new insights into customer needs and preferences are enabling an increasing number of different new business model innovations (Casadesus-Masanell & Zhu, 2013; Teece, 2010). However, management and organization research provides little evidence as to *how* incumbents can actually achieve innovation of their business model (Casadesus-Masanell & Ricart, 2010b; Demil & Lecocq, 2010).

This is a troubling situation given the heightened frequency of such events, which manifest themselves as reduction in both the value captured from business activities by a focal organization and the value created by the focal organization's products and services as perceived by the incumbent's customers (Bowman & Ambrosini, 2000; Gilbert, 2003), as well as the corporate elite's strong interest in engaging in business-model innovation more often in the future (IBM, 2006, 2008, 2010). Thus, several authors have suggested investigating the specific process that leads to new business models within established organization (Bucherer, Eisert, & Gassmann, 2012; Moingeon & Lehmann-Ortega, 2010; Zott & Amit, 2007) and paying more attention to the under-researched drivers that lead to business model innovation in an incumbent context (Aspara, Lamberg, Laukia, & Tikkanen, 2012; Sosna, Trevinyo-Rodriguez, & Velamuri, 2010; Svejenova, Planellas, & Vives, 2010; Zott & Amit, 2008). To the best of the author's knowledge, no study to date has longitudinally assessed an innovation process that enabled an incumbent corporation to adopt a new business model alongside its existing business from a process-research perspective. We are lacking a study of the generative mechanisms that drive this specific complex social process (Abbott, 1990; Pajunen, 2008), which allows innovating value creation and capture at a systemic level (Sosna, et al., 2010; Teece, 2010)

From a managerial perspective, it is crucial to understand how different generative mechanisms create interconnected sub-processes that determine the fate of business model innovation projects in an incumbent context – beyond the commonplace innovation-funnel logic (Tidd & Bessant, 2009) that guides action at a project level. From

a theoretical stance, the study of the innovation process of incumbent organizations that manage to introduce a new business model alongside their existing business offers an interesting opportunity to elaborate existing process theory (Langley, Smallman, Tsoukas, & Van de Ven, 2013; Lee, Mitchell, & Sablinski, 1999; Poole & Van de Ven, 2004) and potentially identify the boundary conditions of existing work on innovation process (Subramanian & Nilakanta, 1996; Van de Ven, Polley, Garoud, & Venkataraman, 2008).

In consequence, this dissertation seeks to add to research program on business models in strategy research (Lecocq, Demil, & Ventura, 2010) by systematically investigating three aspects of the business model innovation process that will be further motivated in chapter A1.2: first, the generative mechanisms that drive business model innovation process in an incumbent context; second, the role of managerial cognition for this type of innovation process; and third, the relationship arrangement to accommodate the new and existing business model over the course of the innovation process. To this end, the present study deploys an intensive process case-study design and event structure analysis to trace and analyze the innovation behavior of key actors in two business model innovation initiatives at a single case site over a twelve-year period (Heise, 1989; Langley, 2009). Process theories of organizational innovation and change provide the theoretical basis for this analysis (Langley, 2009; Poole & Van de Ven, 2004).

1.2 Motivation, research gaps and questions

The overarching motivation that guides the study presented in this dissertation is the question of *how* established organizations may innovate their business model when external developments challenge their existing ways of creating and capturing value.

At this point, the literature agrees on four aspects in connection with this motivation: First, innovating a business model is a relevant challenge from a managerial perspective. Changes to the dominant ways in which organizations within an industry are used to create and capture value threaten – and to some extent puzzle – incumbents, resulting in a possible decline in both the perceived value of what they offer and the share of value that they manage to capture (Bowman & Ambrosini, 2000; Johnson, et al., 2008; Teece, 2010). These shifts in the basis of competition occur more frequently (Hamel, 2000; Johnson, 2010) and have a more global reach (Casadesus-Masanell & Ricart, 2011).

Second, the threat and impetus for such innovations often lie beyond and outside of traditional market and industry structures. For example, new market entrants – both start-ups and established organizations from different contexts – are often the innovators of new business models that affect the ways incumbents create and capture value (Amit & Zott, 2012; Burgelman & Grove, 2007a). However, in spite of the unfamiliar background of these innovators, established organizations have a set of strategic options that allow them to respond (Casadesus-Masanell & Zhu, 2013): Innovating their own business model is one of them.

Third, business model innovation is a desirable strategic option – serving as both a means and an end of organizational activity. Business model innovation provides a means to address market disruptions that challenge the basis of value creation and value capture (Markides & Oyon, 2010; Pohle & Chapman, 2006; Teece, 2010). Irrespective of the presence of market disruptions, managers perceive business model innovation as a worthwhile end (cf. IBM, 2006, 2008, 2010) for at least three reasons: It “represents an often underutilized source of future value” (Amit & Zott, 2012, p. 42) complementing for or substituting other innovation types (Chesbrough, 2010); it may enable extraordinary growth (Johnson, 2010; Johnson, et al., 2008); and it may result in a more long-term competitive advantage (Amit & Zott, 2012; Casadesus-Masanell & Ricart, 2011; McGrath, 2010).

Finally, most leading firms fail in the face of business model innovation. Johnson and colleagues (2008) suggest this in general and Markides (2008) for incumbents that try to run two business models at once.

Keeping in mind that business model innovation is managerially relevant, desirable, comes from unexpected directions, and that most incumbents fail, this study contributes to three *research gaps* in the existing literature that considers the business model as the subject of innovation.

The first gap relates to the *process of business model innovation*. The limited research available has focused on the process that leads to new business models within organizational entities (Bucherer, et al., 2012; Moingeon & Lehmann-Ortega, 2010; Zott & Amit, 2007). There are some descriptions of this process as well as three normative (Bucherer, 2010; Cavalcante, Kesting, & Ulhoi, 2011; McGrath, 2010) and three empirically grounded process models (Cule & Robey, 2004; Sosna, et al., 2010; Svejnova, et al., 2010). While these models provide us with some clues about the path of business model innovation and a vocabulary for considering business model change, we still know relatively little about the actual pattern of activities in the pro-

cess of business model innovation. However, empirically establishing the pattern of an innovation process is an essential first step toward considering the pattern's implications for organizational outcomes (Abbott, 1990).

In addition, research on the drivers of the process that leads to business model innovation is still considered embryonic (Aspara, et al., 2012; Sosna, et al., 2010; Svejnova, et al., 2010; Zott & Amit, 2008). At this point, scholarly discourse agrees on five types of external developments (i.e., technology, customers, globalization/liberalization, regulation, and financial constraints) that provide the opportunities and potential to change existing business models (e.g., McGrath, 2010; Teece, 2010). In addition, independent internal developments within and between business model elements may shape business model change (Demil & Lecocq, 2010). Also, learning is a very important driver of business model innovation – particularly of the trial-and-error and double-loop sort (e.g., Sosna, et al., 2010). A number of authors have therefore suggested specific approaches to learn from experiments to address the levels of uncertainty involved in projects that aim at innovating business models (e.g., Govindarajan & Trimble, 2004; McGrath, 2010). These investigations into the importance of different types of learning among people and in organizations along the process of business model innovation have provided us with an understanding of one mechanism that drives this specific process. However, there are very likely multiple drivers that go beyond the scope of a project initiative. For example, these drivers are likely to address the cognitive barriers reflected in the decision processes of the actors involved (e.g., Cavalcante, et al., 2011; Chesbrough, 2010; Doz & Kosonen, 2010) as well the (temporary) coexistence of an existing and a new business model (e.g., Markides & Charitou, 2004; Moingeon & Lehmann-Ortega, 2010; Sosna, et al., 2010). The identification of a broader set of relevant generative mechanisms is a necessary prerequisite to establishing an empirically grounded process model for business model innovation from a critical realist perspective (Ackroyd, 2009; Pajunen, 2005, 2008).

The second gap relates to the *cognitive aspects* of the business model (Tikkanen, Lamberg, Parvinen, & Kallunki, 2005). Most business model conceptualizations used to study the dynamic aspects of business models focus on their material aspects such as the value network, value proposition, or resources and capabilities in value creation (e.g., Demil & Lecocq, 2010). While the literature does provide a considerable list of potential cognitive barriers to business model innovation (cf. chapter A2.3.3.2), there has been no analysis of how cognitive aspects affect the business model innovation

process at the level of an initiative that aims to introduce a new business model in cases where new business models are successfully implemented (Aspara, et al., 2012).

Finally, the third gap pertains the *connection between the old and the new business model* in an incumbent context. The business model literature calls for more longitudinal research on the interaction between the existing and new business model in processes of business model innovation (Cavalcante, et al., 2011; Moingeon & Lehmann-Ortega, 2010; Sosna, et al., 2010). One group of authors suggests separating the new business model from the existing business in order to minimize conflicts (e.g., Bower & Christensen, 1995; Bucherer, et al., 2012; Govindarajan & Trimble, 2005a, 2011). However, for the new business model to benefit from the existing organization, the incumbent hosting the two models needs to find some way of integrating the two (Iansiti, et al., 2003; Westerman, McFarlan, & Iansiti, 2006). Therefore, Markides and Charitou (2004) introduced a contingent approach to competing with two business models. In addition, the literature on ambidexterity and complex business models has suggested ways to deal with the competing demands of exploratory and exploitative business (Moingeon & Lehmann-Ortega, 2010; O'Reilly & Tushman, 2008; Raisch & Birkinshaw, 2008; Raisch, Birkinshaw, Probst, & Tushman, 2009; W. K. Smith, Binns, & Tushman, 2010). However, there is little evidence explaining the dynamism between the new and existing business model from a longitudinal perspective (Hill & Birkinshaw, 2008; Jansen, Tempelaar, van den Bosch, & Volberda, 2009; Raisch & Birkinshaw, 2008).

Based on the general motivation and the above research gaps, this dissertation investigates three research questions:

1. What generative mechanisms drive the process of business model innovation of incumbent organizations?
2. How does management cognition matter to the business model innovation process?
3. How do incumbents accommodate the existing and the new business model over the course of the innovation process?

The first research question, which addresses the first research gap, constitutes the main empirical focus of this dissertation. It motivates the underlying critical realist perspective (cf. chapter A1.4.1) and dominates the overall research design (cf. chapters A1.4.2 and B4). The second research question contributes to the second research gap and the third research question to the third research gap. The subjects of research ques-

tion two and three are both important subsidiary aspects of the overall business model innovation process that emerged from the analysis of generative mechanisms and the relevant literature.

While this chapter has defined the focus of the present study, the next chapter addresses the question of why newspaper publishing is an adequate context for the study of the simultaneous innovation of value creation and value capture.

1.3 Newspaper publishing as research area

This chapter gives four theoretical and methodological reasons why newspaper publishing in general, and incumbent publishers' response to the market entry of free daily newspapers in particular, represent an interesting and adequate context for studying business model innovation.

First, the business model of free daily newspapers that was pioneered by MTG's METRO in the late 1990s in Sweden (Bakker, 2002a; Vogel, 2001) is part of business model researchers' collective set of examples¹ acknowledged as the introduction of a new business model into an established industry (Casadesus-Masanell & Ricart, 2010b; Casadesus-Masanell & Zhu, 2013; Teece, 2010). This is important because the small-N study presented in this dissertation samples the cases to be studied on theoretical rather than statistical grounds (Eisenhardt & Graebner, 2007). Scholars who engage in business model research and even disagree over such basic issues as the definition of their core concept (cf. Zott, Amit, & Massa, 2011) need to be able to recognize the study as a case of business model innovation to accept it as contribution the collective research program on business models (Demil & Lecocq, 2010).

Second, this context has received limited attention even though the business models of free newspapers are part of the collective set of examples. Hence, a study of incumbent publishers' innovation activities in response to the market entry of free dailies has the potential to provide us with genuinely interesting insights and expand our understanding of business model innovation (Siggelkow, 2007; Tsoukas, 2009).

Third, newspaper publishing is a context that, on the one hand, inherently demands creativity – particularly on the part of journalists and editors – but whose actors, on the other hand, display considerable reluctance to change in the face of new competition (Bakker, 2008a; van Weezel, 2009). Overall, newspaper publishers have thrived on the same business model for more than 100 years (Economist, 2011; Picard & Dal Zotto,

¹ Other prominent examples include SOUTHWEST AIRLINES and EASY JET for Aviation (Teece, 2010), and AMAZON for brick-and-mortar book retailing (McGrath, 2010; Raff, 2000).

2006). This only started to change in the face of Internet, free daily and later mobile competition (Bakker, 2002a; Economist, 2011; Gilbert & Bower, 2002). This complacency and reluctance to change is relevant for the study presented in this dissertation from a theoretical stance. Incumbent publishers that manage to innovate in response to competition by free newspapers may be seen as extreme cases (Pettigrew, 1990) in terms of the barriers to business model innovation that they had to overcome (Chesbrough, 2010). In the case of free newspapers entering the market, this was most distressing as the competitive effects of free newspapers did materialize more instantaneously than for online news.

Finally, the advent of free daily newspapers has stimulated debate among both practitioners and media management scholars. While both camps frequently evaluated the nature and implication of this kind of newspaper from a publicist perspective, they rarely considered the implications of free dailies from a business model perspective (e.g., Bakker, 2002a; Bakker, 2002b; Haas, 2006; Jordan & Chisholm, 2005). The advent of free daily newspaper and responses by incumbent publishers are therefore fairly well documented at an industry level. However, they have not been analyzed in detail and from the perspective of a single innovating incumbent publisher.

In conclusion, the newspaper business provides an interesting example, in which a longstanding business model has experienced a sudden disruption brought to the industry by new entrants, which justifies theoretical sampling innovating incumbents from within this context. In addition, the relevant community of business model researchers acknowledges the free newspaper business model as an innovation for newspaper publishing. Finally, the context is methodologically accessible in terms of the documentation of major events. Chapter A3 will detail the industry context, explain why the German-speaking part of Switzerland is exemplary, and outline the market setting at the time of the study.

1.4 Overview of Methodology

1.4.1 A critical realist philosophy of science

Every scientific inquiry is – implicitly or explicitly – guided by an underlying philosophy of science that specifies two critical aspects of research: on the one hand, it defines the principle nature of the examined phenomenon, i.e., the ontology, and on the other hand, the scientific methods and concepts used to understand it, i.e., the epistemology (Bechara & Van de Ven, 2007; Reed, 2009).

Bechara and Van de Ven (2007) provide an excellent overview of prevalent philosophical positions on four alternative philosophies of science² three of which are summarized in Table 1: logical positivism, realism, and relativism. The purpose of this chapter is not to discuss each of them all but to explain the characteristics of the stance that this study takes: *critical realist philosophy*³.

Table 1: Comparison of the characteristics of alternative philosophies of science

Dimensions	Logical Positivism	Realism	Relativism
Definition	Philosophical movement inspired by empiricism, instrumentalism, and positivism (Vienna Circle, Berlin School).	Philosophical movement characterized by the extension of a mind-independent reality and the ability of a theory to capture partial aspects of reality (conjecture realism, structural realism, realistic pragmatism, critical realism ...).	Contemporary intellectual movement characterized by its skepticism about the foundations of Western philosophy (historical relativism, social constructivism, post-modernism, critical theory, hermeneutics).
Ontology	Objective: Reality is the empirical world (the world of the senses i.e., the rejection of the metaphysics).	Objective: Reality exists independent of our cognition. Thus, there is no basis to reject the metaphysical (epistemic fallacy).	Subjective: Reality is socially constructed.
Epistemology	Objective: The correspondence between our statements and reality through inductive verification or deductive falsification.	Subjectivist: There is no predefined or predetermined methodology or criteria to judge the veracity [of] our knowledge.	Subjective: There is no privileged epistemology due to the incommensurability of discourses.
Knower	Positivist: The knower is independent of the empirical world (passive observer). Furthermore, the mind can mirror the empirical reality.	Perspectivalist: The knower has a priori cognitive frameworks which affect his/her perception of the world.	Constructivist: The knower is in the world and cannot stand outside of his/her socio-linguistic constructs to view it objectively.
Language	Language is value free and provides a means to mirror and correspond to the empirical world (analytic/synthetic distinction).	Language is not self-referential or theory neutral but describes, albeit partially, the underlying mechanism and structure of a phenomenon.	Language is self-referential, i.e., it does not refer to any transcendental entity beyond itself. This presupposes its value and interest-laden nature.

Source: Adapted from Bechara and Van de Ven (2007, p. 39).

While there are different philosophical sub-streams within realism, they all rely on two basic assumptions (Bechara & Van de Ven, 2007; Fleetwood, 2005; Tsoukas, 2009): First, the realist *ontology* is objective; it presupposes a reality that exists independent of the researcher's cognition and knowledge about reality. And second, the realist *epistemology* is subjective, which has two implications: First, there is no meth-

² The authors explicitly highlight that their mapping of philosophies of science is necessarily a simplification in the attempt to delineate prevalent stances.

³ Michael Reed (2009) presents a brief and Roy Bhaskar (2008) an extensive critique and defense of the critical realist philosophy of science for the interested reader.

od preferred ex ante to reveal the mechanisms driving social processes in reality – however, some methods might better fit certain phenomena. Second, the researcher’s knowledge about the world is socially constructed (Fleetwood, 2005; Miller & Tsang, 2011).

The sub-streams within realist philosophy exhibit an affinity toward either positivism or relativism, which serve as extreme poles when mapping the above three philosophies of science (Bechara & Van de Ven, 2007). Roy Bhaskar substantially developed critical realism, the perspective assumed here, as a middle ground between positivism and relativism from the 1970s onward (Bechara & Van de Ven, 2007; Bhaskar, 2008; Reed, 2009). Despite being relatively new, it is finding increasing support as a philosophical movement among social scientists including management and organization studies (Miller & Tsang, 2011; Reed, 2009). Moreover, it informs much of the longitudinal, event, and process research (Ackroyd, 2009; Langley, 2009; Pajunen, 2005, 2008; Poole, Van de Ven, Dooley, & Holmes, 2000).

Critical realism sets itself apart from other philosophies of science in three aspects that ultimately matter for the research strategy and choice of methodology for this study of the business model innovation process: social ontology, causality, and explanation.

Social ontology. Critical realists put a strong emphasis on the conceptual distinction between ontology and epistemology since they maintain that “the way in which we define the world and how it works has profound implications for how we acquire knowledge about it” (Reed, 2009, p. 433). Ontology, in this sense, has primacy over epistemology from a critical realist perspective because the ontological assumptions dictate “what it means to ‘describe’, ‘understand’, and ‘explain’” (Reed, 2009, p. 433).

In contrast to what positivism and relativism would argue, this social reality is neither fully accessible in terms of a discrete set of empirical observations nor fully done justice by analyzing reality as a social construction (Miller & Tsang, 2011). Critical realists maintain that reality consists of the resources and practices we use in the construction of knowledge about it as well as the social reality of entities, activities, processes, and mechanisms existing and operating in different strata or domains of social ontology (Reed, 2009).

Bhaskar’s (2008) stratified view of social ontology, which has been adopted in management and organization studies (e.g., Fleetwood, 2005; Pajunen, 2005; Tsoukas, 2009), distinguishes three interrelated domains: The *empirical domain* is the level of

reality that is directly or indirectly perceptible by the researcher – for example, by means of measurement instruments or direct observation; the *actual domain* consist of events and activities that may or may not be observed; and the *real domain* consists of unobservable mechanisms whose generative powers induce phenomena in the actual and empirical domain (Miller & Tsang, 2011; Reed, 2009).

Social causality. The stratified social ontology predisposes critical realist research toward explanations of social causality that identifies generative mechanisms that produce phenomena of interest (Reed, 2009) such as organizational change, innovation or changes in an institutional field. However, the workings of a mechanism that produce events need not materialize (Miller & Tsang, 2011); rather they have to be thought of as causal tendencies or potential powers that co-determine phenomena in the actual and empirical domain in complex interaction across time and space (Reed, 2009). In addition, these “generative mechanisms are embedded and operate within different levels of reality that range from the more abstract and complex to the more concrete and immediate” (Reed, 2009, p. 432). Hence, we cannot equate the identification of generative mechanisms with the inquiry on empirical regularities modeled in causal chains (Reed, 2009).

Social explanation. The critical realist logic of explanation must accommodate both the complex and contextually embedded relationships of multiple generative mechanisms operating simultaneously as well as the differences in the accessibility and range of influence of generative mechanisms located in different domains and at different levels of analysis (Miller & Tsang, 2011; Pajunen, 2008; Reed, 2009). The means to this end are combinations of conceptual abstraction and model building based on “historical, structural, and interpretive forms of analysis” (Reed, 2009, p. 473). This mode of inference, the abstraction from specific instances to generalize to the generative mechanism beyond the phenomenon, is referred to as retrodution⁴ (Miller & Tsang, 2011; Poole, et al., 2000).

Critical realism as such does not require the researcher to prefer certain kinds of data (Ackroyd, 2009). However, realists require their research design to accommodate its philosophical convictions about theorizing and what constitutes valid explanations of phenomena (Ackroyd, 2009; Miller & Tsang, 2011). The identification of generative mechanisms that produce phenomena of interest requires the researcher to develop an in-depth understanding of the specific instance’s historical and structural context as

⁴ Retrodution is not to be mistaken for induction or deduction, associated with logical positivism and focused on statistical generalization and the search for quasi-universal theories (Reed, 2009).

well as participants' interpretive schemes (Reed, 2009). In addition, critical realists' preferred mode of reasoning (Reed, 2009), retrodution, requires the researcher to work his way back from a phenomenon of interest to a contextualized specification of a theoretical model that explains the underlying generative mechanisms (Miller & Tsang, 2011).

These requirements should not suggest that critical realist researchers conduct only single-case intensive ethnographic case studies. In fact and as (cf. Table 2) illustrates, critical realist researchers have a range of preferred research designs on a continuum between intensive and extensive designs, from case studies and action research to research surveys and census data (Ackroyd, 2009).

Table 2: Research designs for realist-informed research

	intensive		extensive	
Focus	What is the mechanism? (context as given)	How do context and mechanism... ... typically interact?	... historically intersect?	What is the context? (mechanism inferred)
Researcher role				
<i>Passive</i>	Case studies	Comparative case studies	Generative institutional analysis	Research surveys and census data
<i>Active</i>	Action Research	Comparative policy evaluation	General policy evaluation and critique	
Logic of discovery	Abduction	Abduction	Abduction/ retrodution	Abduction/ retrodution

Source: Adapted from Ackroyd (2009, p. 534)

In addition, they do follow not only a retroductive, as Reed (2009) suggests, but also an abductive logic of discovery (Ackroyd, 2009). The respective definitions are given in Table 3.

Table 3: Different logics of discovery for positivism and realism

Logic of discovery	Positivism		Realism	
	<i>Induction</i>	<i>Deduction</i>	<i>Abduction</i>	<i>Retroduction</i>
<i>Something is explained when it is...</i>	a reliable generalization from well-attested data.	a conclusion deduced from known premises or theoretical postulated.	an elemental account of a basic process or mechanisms or something that is seen as the product of such mechanisms.	established as a distinctive process, and the conditions of its existence have been elaborated.
<i>Theory is developed by...</i>	systematic data collection and the use of inductive techniques to produce valid generalizations.	the production of law-like statements in an abstract form, from which further testable postulates are inferred.	Combining the ideas of participants, with recognition of the powers and tendencies of other entities, to describe a generative process.	answering the question, what are the conditions for the existence of this generative process.
<i>Knowledge is improved by...</i>	searching for associations between variables and comparing with the probability of a chance outcome.	testing propositions deduces from theoretical postulates; trying to refute laws by showing predictions false.	building accounts of how generative processes work themselves out in given contexts.	locating accounts of particular generative processes in a broad socio-economic context.

Source: Adapted from Ackroyd (2009, p. 538)

In sum, the critical realist perspective has the following three main implications for the choice of overall research design for the study of the process of business model innovation:

1. The selected research design must, in its versatility, allow capturing the complex interplay of potential generative mechanisms that potentially drive the innovation process for business models, and that may work across and originate from different ontological domains.
2. The epistemological assumptions require the researcher to consider multiple stakeholders' and participants' perspectives – preferably captured in the form of different types of data sources to allow for triangulation. The local and contextualized perceptions of innovation process participants grant access to mechanisms working in the research setting.
3. Research observations and data are implicitly or explicitly informed by prior knowledge and not value free. Thus, the research design has to allow for contradictions, inconsistencies and multiple explanations.

1.4.2 An intensive case-based process-research design

The study presented in this doctoral thesis builds on an intensive, longitudinal case study at the core of a process research design. This chapter specifies the selected type of research design, its properties, how the research design matches with the research questions at hand as well as the status of our knowledge about the phenomenon in question, and justifies key choices. For a detailed description of the methodology, analytical procedures, and the assessment of quality criteria, the reader is referred to chapter B4.

The keyword *process research designs* summarizes a broad set of qualitative and quantitative research practices that investigate how phenomena evolve over time (Langley, 2009).

While there are a number of different taxonomies to organize this kind of research designs (e.g., Langley, 2009; Mahoney, 2004; Sminia, 2009; Van de Ven & Poole, 2005), Mohr's (1982) distinction between variance and process approaches to study processes in and around organizations is probably most influential (Langley, 2009; Poole, et al., 2000).

Studies that assume a *variance approach* aim to explain temporal phenomena in the form of uniformly consistent causal statements. These statements specify the necessary and sufficient conditions under which a set of independent variables determines a certain outcome (Poole, 2004; Van de Ven, 2007). The causal relationship is thereby assumed to hold constant over time and the process that would describe how the independent variables bear upon the dependent variables remains a black box (Poole, et al., 2000). Studies that assume a *process approach*, in contrast, are very much focused on uncovering the contents of the black box that are believed to bring about outcomes such as innovation or change (Poole, et al., 2000). Researchers who adhere to this kind of research approach maintain that temporally evolving phenomena must be understood in terms of the sequences of events that caused the phenomena's appearance rather than inter-temporally consistent causal statements (Abbott, 1990; Van de Ven, 2007). Table 4 systematically compares the two approaches⁵.

⁵ Event though these two approaches are portrayed as orthogonal choice, we frequently find them both in the study of innovation- and change-related phenomena. Poole and colleagues (2000) as well as Langley (2009) stress the approaches' complementary strengths.

Table 4: Comparison of variance and process research approaches

Dimension	Variance approach	Process approach
<i>Questions addressed</i>	What? (e.g., what are the antecedents/ consequences of the issue?)	How? (e.g., how does the issue emerge, develop, grow or terminate over time?)
<i>Explanations</i>	Outcome-driven.	Event-driven.
<i>Entities</i>	Fixed, with varying attributes.	Participate in events and may change over time
<i>Causality</i>	Explanations based on necessary and sufficient causality.	Explanations based on necessary causation.
<i>Aristotele's causality</i>	Efficient causality ("origin of movement").	Final ("outcome"), formal ("pattern"), and efficient causality ("origin of movement").
<i>Generality</i>	Depends on uniformity across contexts.	Depends on versatility across cases.
<i>Time ordering among independent variables</i>	Immaterial.	Is central and critical.
<i>Causation</i>	Immediate.	Layered explanations and both immediate and distal causation.
<i>Meaning</i>	Attributes have a single meaning over time.	Entities, attributes, and events may change in meaning over time.

Source: Adapted from Poole, Van de Ven, Dooley and Holmes (2000, p. 30ff.).

The process approach that informs this study offers four general advantages over the variance approach when it comes to researching processes (Poole, et al., 2000): First, it is a flexible mode of inquiry that allows exploring the critical features of processes. The process approach allows researchers to investigate the path of a process in great detail, which allows building a more detailed theory of innovation and change and exhibits the possibility of discovering new change patterns. Second, process research can uncover the temporal structure of change and provide the story of why variables in variance models are related. This might ultimately lead to more actionable theories that better include the cost of organizational change and innovation, which is harder to capture in cross-sectional models (Langley, 2009). In line with the previous point, the process approach develops explanations for change and innovation that acknowledge the human action in change. Finally, the detailed data collected for process analysis can be quantified and used for variance analysis. However, variance data do not lend themselves to process analysis.

Poole and colleagues (2000) have specified a set of research designs suited for the process approach and organized by the number of available cases (i.e., units of observation) and the number of observable events (i.e., data points). They are summarized in Table 5.

Table 5: A typology of process research designs

	Few events	Many events
Intensive Few cases	Summary case studies	Summary case studies Phasic case studies Time series analysis Markov analysis
Extensive Many cases	Multivariate analysis Phasic analysis optimal matching	Multivariate analysis of summary data Phasic analysis with optimal matching Markov analysis Time series analysis

Source: Adapted from Poole, Van de Ven, Dooley and Holmes (2000, p. 126)

The study presented in chapter B5 uses a *case-study design* (cf. Gerring, 2007) with the following key characteristics:

First, the interest of the study is in how incumbent organizations innovate business models as a temporal sequence of events. Both the realist interest in local events constituted by actors and their activities (Abbott, 1990; Pajunen, 2008), as well as the still early and nascent status of research on business model innovation processes (cf. chapters 1.2, 2.2 and Edmondson & Mcmanus, 2007) justify analyzing a limited number of cases in great depth. Hence, an *intensive* case study is well suited for this endeavor (Ackroyd, 2009). In addition, the small sample takes into account that the collection of multifaceted longitudinal data is very labor intensive (Langley, 2009; Poole, 2004).

Second, the study analyzes the case of an incumbent organization innovating its business model in *retrospect* rather than in real-time. Working backward from a known outcome has two main advantages (Langley, 2009): The researcher is aware of the process s/he wishes to explain and can focus data collection on elements that seem relevant to explaining the outcome of the process in question. In addition, temporal chronologies can be reconstructed efficiently from archival sources and interviews with relatively predictable effort compared to real-time observation. However, Langley (2009) and other authors (e.g., Mahoney, 2004; Poole, et al., 2000) point to the potential biases in memory and ex-post rationalization of retrospective studies. These concerns are addressed in chapter B4.5.2, which details the case methodologies.

Third, the intended *conceptual outcome* (cf. Langley, 2009) of the study are foremost an abstract pattern of the innovation process that leads to a new business model at the case sites, and a process model explaining business models innovation in terms of generative mechanisms. A temporal narrative in the form of an event chronology typically represents the first step of any process study (Abbott, 1990, 1995; Poole, et

al., 2000). Identifying patterns within the sequence of identified events is subsequently the next step in the apprehension of the process under study. Abbott (1990) points out that researchers are well advised to identify patterns within event sequences before they turn to independent variables that affect those patterns or consider the effect of these patterns on outcome variables. It is therefore a sensible choice to start the analysis of the business-model innovation process with analysis of the underlying pattern of events. The literature (cf. Abbott, 1995) provides two broad sets of analytical techniques to identify these patterns in addition to Langley's (1999) seven sensemaking strategies for process data. Chapter B4.4 details the use of some of them within the case study design.

The relevance of mechanisms derives from the realist ontology explained in the previous chapter A1.4.1. Langley (2009) suggests considering Van de Ven and Poole's (1995) as well as other meta-theoretical frameworks that are inherently processual in nature in order to explain the processual pattern's underlying logic. Chapter A2.5 will elaborate on generic generative mechanisms that inform the analysis of the instances of business model innovation.

Finally, the role of the researcher in this study is a *passive* rather than an active one (Ackroyd, 2009). As Langley (2009) and other scholars (e.g., Ackroyd, 2009; Pettigrew, 1990) have pointed out, intimate access to organizational data is usually connected to some kind of reciprocal agreement between the research sites and the researcher. To negotiate data access, the organization received the right to proofread the study and have data sensitive to competitive issues removed. In addition, the organization agreed to participate in the study if the interviews served the case-sites as a means to reflect the innovation process and if the organization received a detailed documentation of their innovation process and a set of recommendations for their future innovation practices based on the analyzed experience. The researcher did not participate or interfere with the innovation process. This display of interests is in line with the critical spirit of the realist philosophy.

In conclusion, the study presented in chapter B5 uses case-study design as part of a process approach to study how incumbent organizations innovate their business model. The focus on a limited number of cases fits with the present state of knowledge on this phenomenon as well as the underlying philosophical assumptions and the intention to open the proverbial black box of this innovation process type. The conceptual products of this study are a generic pattern of the innovation process as well as a model of generic mechanisms that co-determine the innovation of the business model. Both the

pattern and the mechanisms represent a contribution toward a more profound understanding of the dynamic aspects of business models in an incumbent context.

1.5 Contribution of the research

The present study suggests three main *contributions for the academic literature* that concern three areas of an incumbent organization's business model innovation process: First, the generative mechanisms that drive this particular innovation process, second, the role of organizational actors' mental models and cognitive frames, and third, asset stock accumulation and learning as drivers of integration between the existing and new business model.

First, this study adds a proposal for two empirically grounded process model configurations of business model innovation in an incumbent context to the research program on business models and their innovation in strategy research (cf. Lecocq, et al., 2010). The configurations demonstrate that a set of three interrelated generative mechanisms (i.e., sensemaking, dialectics, and teleology) drive business model innovation in incumbent organizations.

Second, this study suggests preliminary insights into the cognitive aspects of business models that propose a potential addition to theory on cognition and organizational change (cf. Aspara, et al., 2012; Gilbert, 2006; Tikkanen, et al., 2005). The variables that are activated as parts of mental models (Huber & Lewis, 2010) in making sense of a new and potentially disruptive business model (Weick, Sutcliffe, & Obstfeld, 2005) advocate the co-occurrence of a sophisticated appraisal of the new business model in terms of a differentiated mental model and a simultaneous framing the new business model (i.e., free newspapers) as a threat and an opportunity to overcome incumbent-specific rigidities and starting a business model innovation process (Chesbrough, 2010; Gilbert, 2005).

Finally, the study contributes a proposal of two specific mechanisms that address the timing and reason incumbent organizations integrate or separate conflicting business models operating in strategically related markets: The accumulation of strategic assets (Barney, 1991; Dierickx & Cool, 1989; Markides & Williamson, 1996) by the unit operating the new business model that benefit the existing business (Govindarajan & Trimble, 2005b; Markides & Charitou, 2004) and organizational actors' learning about the new business model and its relationship with the existing business (McGrath, 2010; Sosna, et al., 2010). This provides first insights regarding a gap in the business model (Markides & Charitou, 2004; Moingeon & Lehmann-Ortega, 2010; W. K.

Smith, et al., 2010) and the ambidexterity literature (cf. Hill & Birkinshaw, 2008; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; Tushman, Smith, Wood, Westerman, & O'Reilly, 2010).

In addition to the insights that this study provides to the literature, it offers three relevant *implications for the top management of incumbent organizations and organizational actors championing business model innovation* initiatives:

First, it raises awareness of the fact that business model innovation is driven by three generative mechanisms. This includes the way the mental models and frames are activated to make sense of a new business model (i.e., sensemaking), the way the incumbent deals with conflict and finds a workable balance between the old and the new business model (i.e., dialectic), and the way the organization deals with the challenges of innovation work at an operational level (i.e., teleology).

Second, it suggests that the senior management team and innovation champions might benefit from assessing and justifying new ways of creating and capturing value on the basis of a business model ontology because the ontology enriches actors' mental models with a diverse set of variables, properties, and relationships.

Finally, the study proposes that managers should prepare to repeatedly assess and justify the optimal level of integration or separation between the old and new business model based on the accumulation of strategic assets and learning about the new business model and its relationship with the existing business.

1.6 Synopsis and structural overview

Table 6 provides an outline of the key aspects of this dissertation. The present study is situated in the field of business model studies in strategy research (Lecocq, et al., 2010) and draws on seminal research on organizational innovation and change (Casadesus-Masanell & Zhu, 2013; Van de Ven, Angle, & Poole, 2000). In broad terms, the motivation that guides the present study is the question of how established organizations may innovate their business model when external developments challenge their existing ways of creating and capturing value. Based on the gaps identified in the present literature on the subject matter, the dissertation investigates three particular aspects of an incumbent organization's business model innovation project: First, the generative mechanisms that drive business model innovation in an incumbent context (Aspara, et al., 2012; Pajunen, 2008; Sosna, et al., 2010; Svejenova, et al., 2010; Zott & Amit, 2008); second, the relevance of managerial cognition and the cognitive aspects of the business model (Aspara, Lamberg, Laukia, & Tikkanen, 2011; Aspara,

et al., 2012; Tikkanen, et al., 2005); and third, the relationship arrangement to accommodate the new and existing business model over the course of the innovation process (Moingeon & Lehmann-Ortega, 2010; O'Reilly & Tushman, 2008; Raisch, et al., 2009; W. K. Smith, et al., 2010; Tushman, et al., 2010).

Table 6: Outline of the research project

Dimension	Description
<i>Field of research</i>	Business model studies in strategy research and organizational innovation.
<i>Philosophy of science</i>	Critical realism.
<i>Unit of analysis</i>	Business model innovation initiative by actors in an incumbent organization.
<i>Research objective</i>	Investigating (1) generative mechanisms that drive the business model innovation process in an incumbent context, (2) the role of managerial cognition for this type of innovation process, and (3) the relationship arrangement to accommodate the new and existing business model over the course of the innovation process.
<i>Theoretical relevance</i>	Adds to the literature by (1) elaborating existing process theory with a proposal for two empirically grounded process model configurations of business model innovation in an incumbent context, (2) providing preliminary insights into the cognitive aspects of business models, and (3) elucidating two mechanisms that drive the level of integration of a new and existing business model to achieve organizational ambidexterity.
<i>Practical relevance</i>	Alerts managers to important issues beyond the decision to innovate and the definition of an innovation funnel, in particular, (1) the mental models and frames activated to make sense of a new business model, (2) how to deal with conflict and find a workable balance between the old and the new business model, and (3) the challenges of innovation work at an operational level.
<i>Main theoretical framework</i>	Process theories of organizational change and innovation.
<i>Main methodological approach</i>	Intensive process case-study design, event structure analysis.
<i>Industry focus</i>	Newspaper publishing, a context that had thrived on a stable business model for several decades and experienced a sudden disruption when new market entrants started competing on the basis of new ways of creating and capturing value.

Source: Own representation.

The underlying philosophy of science perspective, critical realism, aligns with the conceptualization of business model innovation as a complex social process driven by generative mechanisms (Ackroyd, 2009; Miller & Tsang, 2011; Pajunen, 2008; Reed, 2009), which are also referred to as process theories (Langley, et al., 2013; Pentland, 1999; Poole, 2004). Realism's layered view of reality connects observable action by individual and/or collective actors to generative mechanisms that operate in a domain that is not directly accessible to the researcher's empirical procedures (Miller & Tsang, 2011).

Based on an abductive logic of discovery (Ackroyd, 2009), this study builds on the existing process theories that originated from comparative studies of different types of organizational innovation and change processes (Langley, 2009; Poole & Van de Ven,

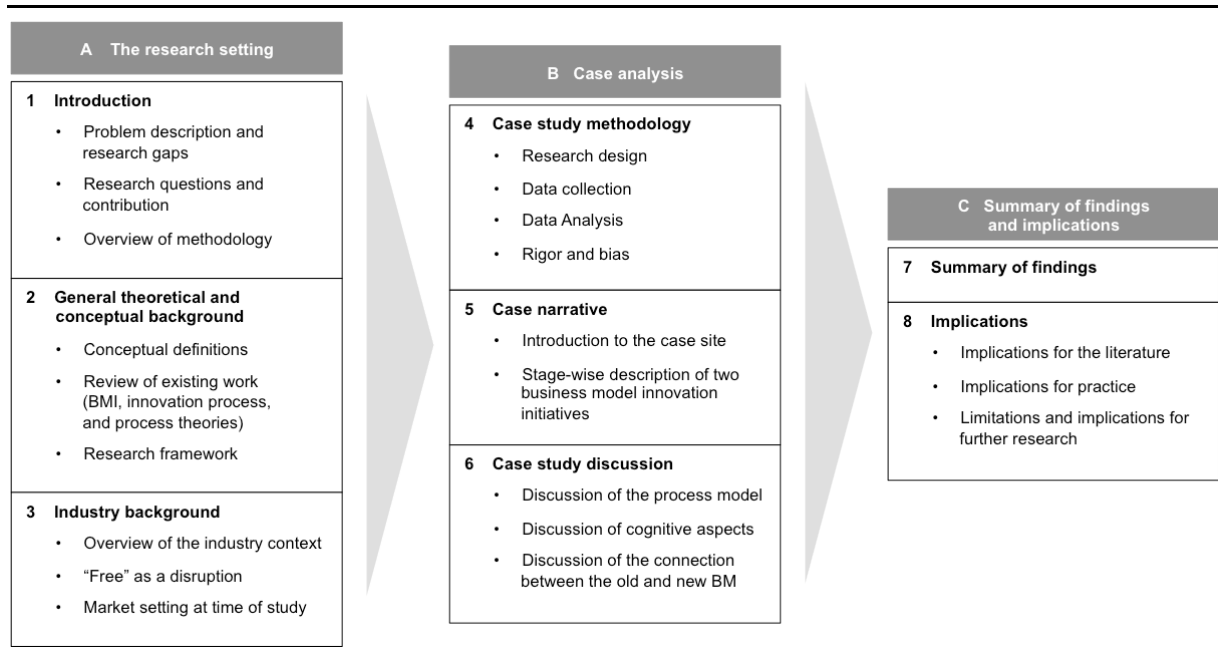
2004) to elaborate a process model of business model innovation in an incumbent context (Lee, et al., 1999). An intensive process case-study design serves to identify what mechanisms operate to produce business model innovation and how they relate to one another (Ackroyd, 2009; Poole, et al., 2000). Event structure analysis is deployed to analytically connect actors and activities traced over a twelve-year period for two business model innovation initiatives at a single case site (RINGIER media corporation) with generative mechanisms (Heise, 1989). Newspaper publishing is a highly interesting context from a theoretically sampling stance (Eisenhardt & Graebner, 2007): The publishers thrived on a stable business model for several decades before they experienced a relatively sudden disruption when new market entrants started competing with free daily newspapers on the basis of new ways of creating and capturing value (Bakker, 2002a; Casadesus-Masanell & Zhu, 2013; Haller, 2009a).

This dissertation adds to the academic literature in three ways: First, it contributes to the research program on business models in strategy research (Lecocq, et al., 2010) by elaborating existing process theory with a proposal for two empirically grounded tri-mechanism process model configurations of business model innovation in an incumbent context (Abbott, 1990; Cule & Robey, 2004; Sosna, et al., 2010). Second, it proposes a potential addition to the theory on cognition and organizational change (Aspara, et al., 2012; Gilbert, 2006; Tikkanen, et al., 2005) by providing preliminary insights into the role of the variables activated in mental models to make sense of a new business model (Huber & Lewis, 2010; Weick, et al., 2005) and the variables' relationship with threat or opportunity framing (Gilbert, 2005, 2006; Szulanski, Doz, & Ovetzky, 2004). Finally, it provides first insights regarding a gap in the business model (Markides & Charitou, 2004; Moingeon & Lehmann-Ortega, 2010; W. K. Smith, et al., 2010) and the ambidexterity literature (cf. Hill & Birkinshaw, 2008; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; Tushman, et al., 2010), elucidating two mechanisms that drive the level of integration of a new and existing business model to achieve organizational ambidexterity. These findings are relevant to managerial practice as they alert organizational actors to the fact that business model innovation in an incumbent organization requires more than the decision to innovate and the definition and funding of an innovation-funnel-like process (Bucherer, 2010; Tidd & Bessant, 2009).

Figure 2 provides an overview of this dissertation's structure and is divided into three parts: *Part A* describes details the research setting. This entails an outline of the research problem, the research questions, and a synopsis of the research project in

chapter 1, conceptual definitions of key terms, a literature review of existing work, and the development of a research framework in *chapter 2*, and an overview of the industry context in general and at the time of the study in *chapter 3*. Part B presents the main body of empirical work in three chapters: *chapter 4* details the case study methodology, *chapter 5* the analytical case narrative for two business model innovation initiatives, and *chapter 6* discusses the findings from the case analysis with reference to the three research questions guiding this research project. Finally, *part C* summarizes the study's main findings in *chapter 7* and elucidates their implications for different audiences as well as limitations and avenues for further research in *chapter 8*.

Figure 2: Structural overview of the dissertation



Source: Own representation.

2 General theoretical and conceptual background

2.1 The business-model as a concept in research

2.1.1 Conceptual origins and diffusion

A number of scholarly review articles have tried to clarify the roots of the business-model concept as part of their endeavor to delineate what a business model is. Yet, these articles disagree on the business model's conceptual origins partly because of differences in selected time horizons and partly because of the disciplinary focus of reviewed publications as well as the authors' disciplinary lenses⁶ (Baden-Fuller & Morgan, 2010; George & Bock, 2010; Ghaziani & Ventresca, 2005; Hedman & Kalling, 2003; Lambert & Davidson, 2012; Osterwalder, Pigneur, & Tucci, 2005; Pateli & Giaglis, 2004; Schweizer, 2005; Shafer, Smith, & Linder, 2005; Zott, et al., 2011).

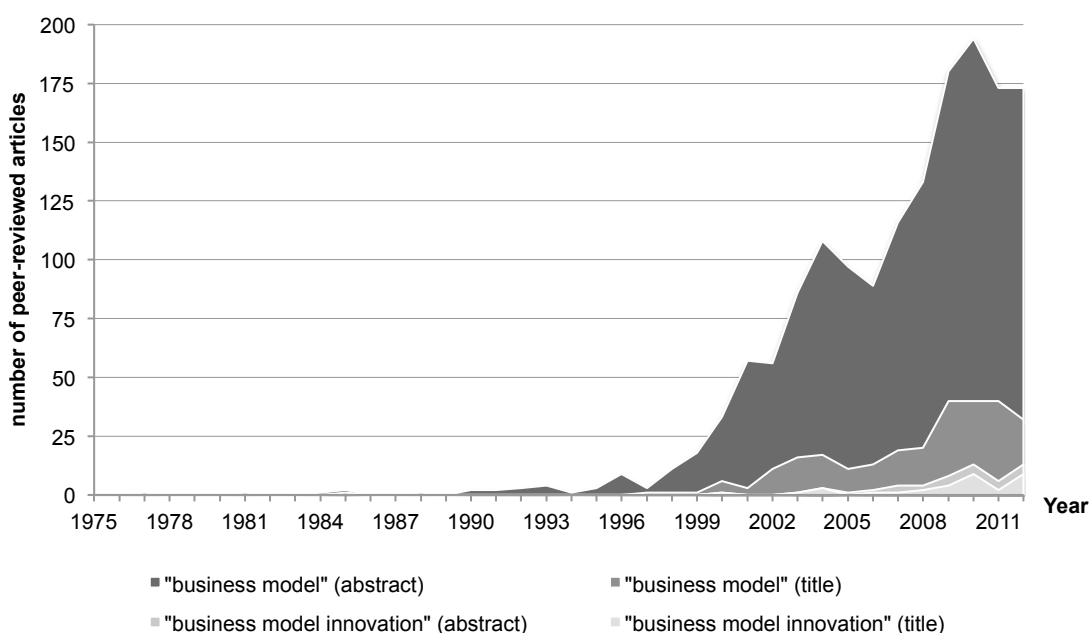
As a part of their literature review, Bieger and Reinhold (2011) identify at least three parallel histories of origin that coincide with different research communities: First, *management* scholars seem to trace the origins back to Peter Drucker's publications from the 1950s. Casadesus-Masanell and Ricart (2010b) maintain that Drucker's management capacity developed a predecessor of the business model with his "logic of business". Second, *information systems* scholars locate the roots of the concept in business modeling of the 1970s. According to their perspective, a business model represents a simplified description of business to illustrate and communicate its operation (Ghaziani & Ventresca, 2005; Rentmeister & Klein, 2003) that facilitates the integration between an organization's management and information systems domain (Hedman & Kalling, 2003; Osterwalder, et al., 2005). Finally, Baden-Fuller and Morgan (2010) refer to early *economists'* writings as the conceptual roots of the business models. These texts generically describe business systems such as the guilds of the Middle Ages or factories of the industrial revolution in late 18th century Europe. Teece (2010) traces the lineage even further back when he argues that early societies devised the first business model when they started engaging in barter trade.

It is certain that similar ideas but different connotations about a concept that we now term "business model" have developed within different communities of research over time (Ghaziani & Ventresca, 2005) and that interest in the concept has experienced considerable growth (cf. Figure 3) particularly since the 1990s (Osterwalder, et

⁶ Inherent limitations of the literature databases employed might also have influenced the outcome of these reviews— despite the authors' best methodological intentions.

al., 2005; Zott, et al., 2011), growth that was fueled by empirical phenomena such as the growth of the internet economy, further disintegration of value chains with activities outsourced and off-shored, and new ways of making money from customer interaction (Teece, 2010). This is best illustrated by a study by Ghaziani und Ventresca (2005).

Figure 3: Articles referring to the keyword “business model”



Source: Based on EBSCOhost database, *Business Source Premier*⁷.

The two sociologists (Ghaziani & Ventresca, 2005) have analyzed meanings associated with the term “business model” in scholarly discourse between 1975 and 2000 across different research communities. They identified and defined research communities by the disciplinary journals in which scholars had published business-model related articles. The number of publications served as a measure to capture the intensity of scientific discourse between different research communities. Additionally, the authors (Ghaziani & Ventresca, 2005) identified different meanings (“frames”) associated with the term “business model” based on a qualitative content analysis of the abstracts of 507 journal articles. Table 7 illustrates three prominent examples.

⁷ The grey areas represent the number of academic articles indexed in the EBSCOhost database referring to “business model” or “business model innovation” in abstract and/or title for a given year. Only articles published in a peer-reviewed journal between January 1975 and November 2012 in the field of business and management research were included.

Table 7: Connotations of the term “business model”

Connotation	Description	Exemplary descriptions
<i>Computer/ systems modeling</i>	Computer-assisted modeling of business practices Computerized business environment Computer software	“The [software] package [...] programs allow the development and use of customized planning and analysis tools. Even without computer programming knowledge, the user builds relatively sophisticated business models [...]. This software is an important tool” (Small Business Computers Magazine, 1982)
<i>Revenue model</i>	Generating revenues and profits	“The business model provides the necessary tools for the different departments to evaluate their profitability” (Industrial Management & Data Systems, 1991)
<i>Value Creation</i>	Creating value Transaction content, governance, and structure	“The key to reconfiguring business models for the knowledge economy lies in understanding the new currencies of value” (Journal of Business Strategy, 2000)

Source: Adapted from Ghaziani and Ventresca (2005, pp. 536-538) and Bieger and Reinhold (2011, p. 15).

Ghaziani and Ventresca’s (2005) analysis demonstrates that the dominant meaning associated with the keyword “business model” changed over the observed time period: From 1975 to 1994, “computer/systems modeling” was the dominant association in academic discourse framed by information systems scholars. Subsequently, from 1995 to 2000, “value creation” became the dominant connotation for the term “business model” as used by management and organization research scholars (Ghaziani & Ventresca, 2005). The authors’ (Ghaziani & Ventresca, 2005) results indicate, however, that “value creation” did not reach the same level of dominance in academic discourse as had “computer/systems modeling” in previous years. However, in combination “value creation” and “revenue model” has reached an unprecedented level of adoption across all analyzed communities of discourse (Ghaziani & Ventresca, 2005).

At present, “value creation” and “revenue model” are still important connotations of the business model (Lambert & Davidson, 2012). The understanding that the business model explains value creation and value capture (often referred to as revenue model) in an integrated way may serve to unify research on business models in spite of a proliferation of idiosyncratic definitions and parallel rather than integrated research efforts by different communities of scholars (Zott, et al., 2011).

From a philosophical perspective, the divergence in conceptualizations and disparate research efforts in different communities do not come as a surprise. Even such long-standing management concepts such as strategy lack a unified definition (Nag, Hambrick, & Chen, 2007). Yet, a philosophical stance may help us to both better un-

derstand and deal with the effects of missing unity in definition and research efforts in two ways.

First, it allows us to determine whether there is a case for business model research as a research community with a common purpose. The realist philosophy that informs this study views science and the construction of knowledge as a social process (Bechara & Van de Ven, 2007; Miller & Tsang, 2011). It is language that enables this construction as the medium of social discourse (Nag, et al., 2007). Communities of researchers who pursue a common research program (i.e., their purpose) share a common language and specialist knowledge that delimits them from other communities⁸. Furthermore, the research program requires a critical mass of academics who believe in its right of existence (Nag, et al., 2007). Lecoq and his colleagues (2010) argue that there exists evidence of such a community for a research program focusing on business models – with its own tracks at major management conferences, online networks, and discussion panels. Even though members of the community of business model researchers do not agree on “the ontological status of business models” (Lecocq, et al., 2010, p. 218), there is a common core (Tsoukas, 2009) of assumptions that differentiates this community’s research program from others in strategy research. These assumptions cover (1.) the emphasis of value creation and capture over competitive advantage, (2.) the emphasis on interaction between different actors in value creation, (3.) the joint consideration of the unit of business creating value for the customer with the organizational processes required to create this value, and (4.) the emphasis on managerial choice and entrepreneurial action over environmental determinism (Lecocq, et al., 2010). Admittedly, the concept’s theorization and connection to strategic issues is still in its infancy (Lecocq, et al., 2010; Teece, 2010).

Second, philosophical considerations help us to deal with the ongoing existentialist debate over the business model’s “true” nature (cf. Doganova & Eyquem-Renault, 2009) and the abundance of definitions. Tsoukas (2009) argues from a Wittgensteinian view that since concepts are socially constructed, there are no strictly correct definitions with sharp boundaries. Instead, concepts are “partly bounded and partly open-ended” (Tsoukas, 2009, p. 288): We refine and modify the conceptual boundaries in accordance with our research purpose, and the specific instances of the concept that we research provide the potential to learn something about the phenomenon we investigate. Thus, even though the definition of the business model is an open-ended pro-

⁸ This is not to suggest that members of a research community all draw on a homogenous set of research designs and theories (Nag, et al., 2007).

cess, individual studies and cases shared via presentations and publications help us to further specify the common core of the understanding of the business model in our research community⁹ – given that researchers are clear about their assumptions about and conceptualizations of the business model.

In conclusion, the business model concept as defined by the academic discourse has developed significantly within different communities – especially since the 1990s. From a philosophy of science perspective, it is not surprising that there is no consensus on a single, clearly defined definition of concept. However, this perspective allows appreciating that there is a research program with a focus on business models and that individual studies may help us to refine the conceptual core, as long as they are clear about their propose-driven conceptualizations. With regard to the common core, I will argue over the next two sub-chapters that the use of the business model lies in the joint and interrelated consideration and representation of the logic of doing business – referring to the way value is created and captured by a focal organization.

2.1.2 Influential definitions and common denominators

The number of review articles that have sought to represent the full spectrum of business model definitions and conceptualizations has steadily grown since the early 2000s. These reviews map the multiplicity of conceptions and serve as a temporary compendium of the state of knowledge on business models (e.g., Hedman & Kalling, 2003; Lambert & Davidson, 2012; Morris, Schindehutte, & Allen, 2005; Shafer, et al., 2005). However, the review articles have not led to a convergence in definitions, and integrative business model conceptualizations that tried to synthesize common elements of definitions have not been broadly adopted. The abundance of idiosyncratic business model definitions as well as the list of different purposes that a business model is associated with support this conclusion (Zott, et al., 2011).

The review of definitions in this chapter does not strive to cover the full spectrum of business model definitions published in academic journals. Instead, it focuses on a subset of twelve definitions that have proven most influential and have contributed new ideas to business model research in management and organization studies. The following paragraphs detail this subset presented in Table 8 and compare them along five dimensions (cf. Bieger & Reinhold, 2011) derived from the business model literature (cf. Table 9):

⁹ Such cases include frequently referenced examples like the low-cost airline business model by SOUTHWEST AIRLINES and EASYJET or the introduction of APPLE's online music store iTUNES and ecosystem (e.g., Chesbrough, 2010; Teece, 2010).

1. *Value creation and value capture*: Does the sampled set of definitions refer to aspects of both value creation and value capture?
2. *Theoretical underpinning*: On what theoretical bases have the authors of the sampled set of definitions built their business model definitions?
3. *Definition of elements*: What constituent elements have the authors used to specify their business model definitions?
4. *Static / dynamic*: Do the selected business model definitions reflect dynamic aspects of a business model such as matters of change, innovation, or renewal?
5. *Material / cognitive*: Do the business model definitions included in the sample specify the business model's material and/or cognitive aspects?

Table 8: A selection of business model definitions

Authors	Definitions (sorted by date of publication and number of citations)	Cit. ¹⁰
Timmers	„Definition of a business model: An architecture for the product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenues.“ (1998, p. 4)	172
Amit & Zott	„Definition: A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities. <i>Transaction content</i> refers to the goods or information that are being exchanged, and to the resources and capabilities that are required to enable the exchange. <i>Transaction structure</i> refers to the parties that participate in the exchange and the ways in which these parties are linked. Transaction structure also includes the order in which exchanges take place (i.e., their sequencing), and the adopted exchange mechanism for enabling transactions. The choice of transaction structure influences the flexibility, adaptability, and scalability of the actual transactions. Finally, <i>transaction governance</i> refers to the ways in which flows of information, resources, and goods are controlled by the relevant parties. It also refers to the legal form of organization, and to the incentives for the participants in transactions.“ (2001, p. 511)	445

(Table continued on next page)

¹⁰ Numbers indicate publications' total citations according to Social Science Citation Index at the end of November 2012.

Chesbrough & Rosenbloom	"A successful business model creates a heuristic logic that connects technical potential with the realization of economic value. The business model unlocks latent value from a technology [...] The functions of a business model are to: articulate the <i>value proposition</i> , i.e. the value created for users by the offering based on the technology; identify a <i>market segment</i> , i.e. the users to whom the technology is useful and for what purpose, and specify the revenue generation mechanism(s) for the firm; define the structure of the <i>value chain</i> within the firm required to create and distribute the offering, and determine the complementary assets needed to support the firm's position in this chain; estimate the <i>cost structure</i> and <i>profit potential</i> of producing the offering, given the value proposition and value chain structure chosen; describe the position of the firm within the <i>value network</i> linking suppliers and customers, including identification of potential complementors and competitors; formulate the <i>competitive strategy</i> by which the innovating firm will gain and hold advantage over rivals. These six attributes collectively serve additional functions, namely to justify the financial capital needed to realize the model and to define a path to scale up the business." (2002, pp. 529, 533-534)	250
Magretta	"They [business models] are, at heart, stories – stories that explain how enterprises work. A good business model answers Peter Drucker's age old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?" (2002, p. 4)	122
Morris, Schindehutte & Allen	"A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets." (2005, p. 727)	89
Tikkanen, Lamberg, Parvinen & Kallunik	„a business model can be conceptualized as the sum of material, objectively existing structures and processes as well as intangible, cognitive meaning structures at the level of a business organization. [...] By the material aspects of a business model, we refer to the tangible elements of a company's strategy, business network, operations, and finance and accounting. By the cognitive aspects of a business model, we refer to the systemic meaning structures or the belief system of a company.“ (2005, p. 790)	23
Johnson, Christensen & Kagermann	"A business model, from our point of view, consists of four interlocking elements that, taken together, create and deliver value [i.e., Customer value proposition, Profit formula, Key resource, and Key processes]." (2008, p. 52)	24
Teece	"A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value." (2010, p. 173)	56
Zott & Amit	"Building on existing literature [i.e., Amit & Zott (2001)], we conceptualize a firm's business model as a system of interdependent activities that transcends the focal firm and spans its boundaries." (2010, p. 216)	22
Casadesus-Masanell & Ricart	"a business model, we argue, is a <i>reflection</i> of the firm's <i>realized</i> strategy [...] We contend that they are composed of two different sets of elements: (a) the concrete choices made by management about how the organization must operate, and (b) the consequences of these choices [...] The particular set of choices an organization makes about policies, assets and governance - and their associated consequences - are the organization's business model, because they determine 'the logic of the firm, the way it operates and how it creates value for its stakeholders.'" (2010b, pp. 195, 198, 201)	20

(Table continued on next page)

Doz & Kosonen	“Business models can be defined both objectively and subjectively. Objectively they are sets of structured and interdependent operational relationships between a firm and its customers, suppliers, complementors, partners and other stakeholders, and among its internal units and departments (functions, staff, operating units, etc). [...] But, for the firm’s management, business models also function as a subjective representation [...] as cognitive structures providing a theory of how to set boundaries to the firm, of how to create value, and how to organise its internal structure and governance” (2010, pp. 371-372)	10
Svejenova, Planellas & Vives	“business models are [...] organizational devices that reveal a company’s logic for creating and capturing value, and also its approach to constant renewal” (2010, p. 409)	4

Note: “Cit.” denotes citations. Source: Own representation, for quotes see text.

The selected business model definitions all refer to aspects of *value creation and value capture*. Amit and Zott’s (2001) stands out from the rest of the definitions because it views value capture as an essential, complementary yet distinct concept from the business model. More recently, however, Zott, Amit and Massa (2011) acknowledged the business model’s “dual focus on value creation and value capture” (p. 1037). In essence, a business model explains how a focal unit of analysis – such as an organization, a network, or an individual – creates value for a certain group of customers and appropriates value from this act at the same time. The definitions’ emphasis on these value aspects corresponds with conclusions from recent reviews that value creation and value capture are emerging as a common theme in business model research (Lambert & Davidson, 2012; Zott, et al., 2011).

Table 9 (p. 32) illustrates the diversity of theories applied to underpin business model definitions. However, the majority of reviewed business model definitions are not explicitly based on theoretical frameworks. Conceptualizations without explicit *theoretical foundation* are either “interdisciplinary” in the sense that they draw on existing concepts from strategy, entrepreneurship, and technology management research (i.e., Casadesus-Masanell & Ricart, 2010b; Chesbrough & Rosenbloom, 2002; Doz & Kosonen, 2010; Teece, 2010; Tikkanen, et al., 2005), or they are based on assumptions of strategic choice theories (cf. Bieger & Reinhold, 2011), with the management optimizing fit between the choice variables that constitute the business model and its external context (i.e., Johnson, et al., 2008; Magretta, 2002; Svejenova, et al., 2010). Definitions with a theoretical foundation are either based on a single, integrative theory (i.e., Timmers, 1998; Zott & Amit, 2010) or on different theories underpinning the various elements of a business model (i.e., Amit & Zott, 2001; Morris, et al., 2005).

Table 9: Comparison of selected business model definitions

Authors	Value Creation & Capture	Theoretical underpinning	Definition of Elements	Static / Dynamic	Material / Cognitive
Timmers	both	Value chain analysis	Architecture (product, service, and information flow) Benefits for various business actors Revenue sources	static	material
Amit & Zott	both ¹¹	Value chain analysis Schumpeterian Innovation Resource-based view Theory of strategic networks Transaction cost economics	Transaction content Transaction structure Transaction governance	static	material
Chesbrough & Rosenbloom	both	Interdisciplinary	Market Value proposition Value chain Cost and profit Value network Competitive strategy	static	both
Magretta	both	Strategic choice	Customer Value proposition Ways to produce/ deliver value to customers Revenue Model	static	material
Morris, Schindehutte & Allen	both	Value chain analysis Strategic choice Theory of strategic networks Resource-based view Transaction cost economics Schumpeterian innovation Systems theory	Value proposition Customer Internal processes and competences Market positioning Economic model Entrepreneur/ investor factors	static	material
Tikkanen, Lamberg, Parvinen & Kallunik	both	Interdisciplinary	Strategy and structure Operations Network Finance & accounting Belief system	static	both
Johnson, Christensen & Kagermann	both	Strategic choice	Customer value proposition Profit formula Key resources Key processes	static	material
Teece	both	Interdisciplinary	Value proposition Customer Revenue model	static	material

(Table continued on next page)

¹¹ When considered together with a complementary revenue model (cf. Amit & Zott, 2001, p. 515).

Zott & Amit	both ¹²	Activity systems	Transaction content Transaction structure Transaction governance	static	material
Casadesus-Masanell & Ricart	both ¹³	Interdisciplinary	Choices Consequences	static	material
Doz & Kosonen	both	Interdisciplinary	Set of structured, interdependent relationships	static	both
Svejenova, Planellas & Vives	both	Strategic choice	Activities Organizing Resources	dynamic	material

Source: Own representation.

Teece (2010) traces the lack of a coherent theoretical foundation for the business model back to two causes: On the one hand, traditional economic theories explaining markets do not require business-model-based thinking: They assume perfect competition, transparent markets, “strong property rights, the costless transfer of information, perfect arbitrage, and no innovation” (Teece, 2010, p. 175). Defining the value to offer in terms of products and services as well as the way to capture value are non-complex tasks in such an environment. On the other hand, Teece (2010) argues that the business model has not found its rightful place in organization, strategy and marketing research. In part, this is due to the fact that the business model has not been unambiguously delineated from well-established concepts such as strategy (Bieger & Reinhold, 2011).

Most authors include *business model elements* labeled “value creation” and “revenue model” or “value capture” in their business model ontologies, but the delineation of business model elements varies in terms of the level of abstraction, detail and complexity. In part, these differences result from the heterogeneity in the theoretical embedding of business model conceptualizations. Unlike the rest of the selected definitions, Casadesus-Masanell and Ricart’s (2010b) business model conceptualization does not ex-ante define the included business model elements. Instead, the authors suggest determining key choices and consequences on a case-by-case basis. While this ex-post approach allows accounting for case-based peculiarities, it complicates comparing business model across units of observation (cf. Demil & Lecocq, 2010).

¹² When considered together with Amit and Zott (2001)

¹³ Casadesus-Masanell and Ricart (2010b) include aspects of value creation and capture in their network representations.

All but one definition in Table 8 are *static* business model conceptualizations designed to represent a cross-sectional “snap-shot” of different business-model elements and consistent architecture. Only Svejnova and colleagues’ (2010) business model definition is inherently *dynamic* with its reference to renewal. While all definitions might serve to capture change in the business model over time, some are inherently more dynamic because of their theoretical underpinning. For example, those conceptualizations that draw on the resource-based theory of the firm in a Penrosian tradition are presented with a constant change in resources that alters the business model – albeit mostly in small steps (Demil & Lecocq, 2010).

Finally, the majority of definitions in Table 8 conceptualize the business model as a collection of *material* elements such as markets, customers, products and services, revenue sources, and activities (e.g., Chesbrough & Rosenbloom, 2002; Svejnova, et al., 2010; Zott & Amit, 2010). More recently, there has been an increase in awareness that the *cognitive* meanings associated with these material elements also matter for our understanding of the business model. Tikkanen and colleagues (2005) as well as Doz and Kosonen (2010) include both material and cognitive aspects in their business model definitions. Other authors such as Teece (2010) and Chesbrough and Rosenbloom (2002) do not incorporate cognitive aspects directly into their business model definition but point out that the business model reflects managers’ central assumptions and hypotheses about value creation and value capture.

This brief review of twelve recent and influential definitions of the business model has demonstrated that authors indeed tend to converge on a common conceptual understanding. The definitions center around the idea of value creation and value capture for different units of analysis. However, these definitions identify different constituent elements of a business model, are heterogeneous in their theoretical underpinning, and differ to the extent that they include cognitive aspects as part of a business model. It would be beneficial to have a single, comprehensive conceptualization of the business model for the collective learning process. Nonetheless, studies on business models do make a contribution to the collective research program (Lecocq, et al., 2010) as long as they build on a clearly specified and operationalized business model conceptualization that centers around the idea of value creation and value capture. After all, the business model has some unique uses and functions that justify it as a unit of analysis in organization and management studies.

2.1.3 Use and function in organization and management studies

Charles Baden-Fuller and Mary Morgan's (2010) conceptual piece on business models as models, which investigates the concept's usefulness, refers to three different model-type uses¹⁴ a business model can assume in research: first, as a description of kind, second, as a model organism, or finally, as a "recipe".

When the business model is used as a *description of kind*, it acts as a simplified depiction of the most important elements capturing the business activities of, for example, a focal organization as well as the interaction between these elements (Baden-Fuller & Morgan, 2010). Both the selected business model conceptualization and the underlying theories determine what elements to include as part of the representation of a particular business model in scale and how these elements interact.

Business models may be classified or structured in taxonomies for the purpose of analysis (Baden-Fuller & Morgan, 2010). Business-model taxonomies describe different classes of business model configurations in real empirical settings¹⁵. Particularly successful business-model configurations in certain taxonomy classes or industries may serve as "role models" (Baden-Fuller & Morgan, 2010) for groups of companies or even develop into dominant business-model designs (Chesbrough, 2010; Prahalad & Bettis, 1986) such as the low-cost or sponsor-based business model configuration (Casadesus-Masanell & Zhu, 2013). Baden-Fuller and Morgan (2010) point out that many classifications of business models are a mix of taxonomies and typologies, hence, a mix of empirical observation (bottom-up) and theoretically derived classes (top-down).

The use of the business model for analytical purposes in organization and management research does bear closer resemblance to biologists' reliance on the "*model organism*" rather than economists' understanding of the mathematical model (Baden-Fuller & Morgan, 2010). Exemplary companies like 3COM or USA TODAY serve researchers as instances of entire populations of analogous business models (e.g., Chesbrough, 2010; W. K. Smith, et al., 2010). An analysis of specificities of these cases enables researchers to develop theories and concepts that analytically generalize to an entire population of similar business models.

¹⁴ Doganova and Eyquem-Renault (2009) point out that these three uses basically refer to the dictionary definition of any type of model.

¹⁵ As these taxonomies are based on empirical observation, they may change and develop over time (Bieger & Reinhold, 2011).

Finally, the third way in which business models are used is referred to as “*recipes*” (Baden-Fuller & Morgan, 2010; Sabatier, Mangematin, & Rousselle, 2010): Successful and ideally modeled business model configurations are imitated with regards to the configuration of business model elements (“ingredients”) and the underlying principles (“cook”, “bake”, “fry” etc.) to ensure a certain degree of planning security in business model change or innovation projects. However, the successful implementation of the business model “recipe” is dependent on the implicit knowledge and the capability set of the “cook” (Baden-Fuller & Morgan, 2010). With this conceptualization as “*recipes*”, Baden-Fuller and Morgan (2010) imply, on the one hand, that business models may be copied to a certain degree. On the other hand, they also point out that there are many different possibilities for crafting a working business model based on a given set of “ingredients”.

Beyond those three uses of business models identified by Baden-Fuller and Morgan (2010), the concept is useful for four more reasons. The business model helps us to better understand new practices, it refreshes our view on certain traditional phenomena in strategy research, it emphasizes the role of managerial action and choice, and it embraces a system-wide view of innovation and change.

The business model is a useful unit of analysis to explain relatively *new practices* that for example arise at the intersection of converging industries where cross-boundary competitors break the existing industry rules (Burgelman & Grove, 2007a; McGrath, 2010) or when value co-creation and capture happens at a system-level with a flexible integration of actors on both the supply and demand side of a market (Lecocq, et al., 2010; Zott & Amit, 2010). The business model makes sense of these practices with its more flexible focus on value creation and value capture across actors’ boundaries and its ability to explain value creation even for non-economic value types (e.g., Lecocq, et al., 2010; Yunus, Moingeon, & Lehmann-Ortega, 2010).

In addition, the business model perspective *refreshes our view* on some traditional phenomena in strategy research. With reference to Amit and Zott’s work (2001, 2012), Lecocq and colleagues (2010) point out, that the relevance of business model configurations for performance outcomes, superior rents, and competitive advantage has gained recognition in strategy research. Moreover, the business model concept emphasizes the role of learning and experimentation in highly dynamic and complex environments (McGrath, 2010). The business model’s focus on value creation for customers puts more emphasis on outside-in aspects of business, which complements the inside-out focus on opportunity exploitation propagated by the resource-based view of the firm

(Barney, 1995; McGrath, 2010). The business model sensitizes strategy research to the dynamics of competitive advantage, providing us with a structured way to identify value creation and capture's sustainability and a potential means to identify new, favorable competitive positions (McGrath, 2010).

Another aspect of the business model's usefulness derives from its *systemic character*. The integration and co-specialization of the business model elements as well as their entire architecture – which makes up the business model – is another common theme of business model research (Zott, et al., 2011). While one might argue that the business model tries to describe too much at one time, its advantage over other concepts is that it captures the configuration of business model elements as well as their interdependencies in a comprehensive analysis of value creation and capture (Casadesus-Masanell & Ricart, 2010b; Teece, 2010; Voelpel, Leibold, & Tekie, 2004; Zott & Amit, 2010). Moreover, if the concept is used in studies of innovation and change, the business model allows a better understanding of system-wide changes to the ways a focal organization creates and captures values for its different stakeholders (Demil & Lecocq, 2010) – which is the focus of this study.

Finally, both McGrath (2010) and Lecocq and colleagues (2010) stress the fact that business model research emphasizes the role of managerial *action and choice* – beyond the choice of an initial industry positioning that is hard to change at a later point in time. This preference toward action is especially appealing to realist researchers who maintain that actions of actors on different levels are the main drivers of any social process (cf. chapter 1.4.1).

2.1.4 Problems and shortcomings associated with the concept

The business model has received a critical level of acceptance in organization and management studies, with articles that center on this concept appearing in high-status academic journals (e.g., Casadesus-Masanell & Zhu, 2013; Zott & Amit, 2007; Zott, et al., 2011). Nonetheless, three main points of criticism persist which will be addressed below.

The first point of criticism concerns the *definition* of the business model. The term “business model” has been referred to as “murky” (Porter, 2001) and “the most sloppily used term” (Magretta, 2002, p. 8) in strategy research¹⁶. Indeed, considerable ambiguity still surrounds the business model concept (Lecocq, et al., 2010), but definitions

¹⁶ This is especially true for the term's first surge of popularity during the „dotcom“ years (Svejenova, et al., 2010).

and operationalization in empirical studies have substantially improved and started centering on a set of common themes (Zott, et al., 2011). Of these themes, the business model's notion as a comprehensive description of value creation and capture seems most prevalent (cf. chapter 2.1.2). In addition, present studies use the term "business model" when either detailing an explicit conceptualization or referencing an article that deals with the essentialist business model question (i.e., what are business models?) (Doganova & Eyquem-Renault, 2009).

The second point of criticism is related to the first and pertains to the business model's *theoretical foundations*. Teece (2010) highlights the interdisciplinary nature of the business model concept. The concept has developed within different, loosely connected research communities (i.e., strategy, entrepreneurship, information systems, marketing, etc.), which has rendered the business model an orphan concept that "lacks an intellectual home" (Teece, 2010, p. 176). However, in line with the more specific business model definitions and operationalization mentioned above, researchers are also giving the theoretical foundation more thought. At present, studies draw on multiple existing, rather than a single new theory to motivate their business model concepts (Lecocq, et al., 2010). This is also the route traveled by this study.

The final point of criticism refers to the blurry conceptual *delineation* of the business model from other incumbent concepts such as strategy or the value chain. This is related to the definitional issue dealt with under point one. Without a clear definition, the delineation from other concepts in organization and management research remains a problem. Ramon Casadesus-Masanell and Joan Ricart (2010b) have given this issue the most thought. They positioned their business model conceptualization within a clear nested hierarchy: An organization's strategy determines the range of possible business model configurations, which in turn define the possible space for tactical maneuvers (Casadesus-Masanell & Ricart, 2010b). Independent of the precise delineation of any two concepts, logically, researchers may keep the concepts either distinct or overlapping, and if they overlap, they may occupy a non-hierarchical relationship or align in a hierarchical, nested fashion. Given these options and the dependence of the delineation on the selected business model conceptualization, there needs to be more conceptual work on this last point of criticism.

In order to respond to these points of criticism as far as the present state of knowledge and the scope of this study allow, the following chapter details the choice and conceptualization of the business model definition that underpins the subsequent

study of business model innovation. Moreover, it elaborates on the business model's relationship with alternative concepts that matter for the study at hand.

2.2 The value-based business-model ontology

The study presented in chapter B5 builds on Bieger and Reinhold's (2011)¹⁷ value-based business model conceptualization¹⁸. The value-based business model is a useful conceptualization and a sensitive choice to study the innovation of a business model for three critical reasons: First, the definition is consistently conceptualized around the ideas of value creation and value capture; second, the conceptualization details both value creation and capture in multiple business model elements that are grounded in existing theoretical frameworks (cf. Table 10); and finally, the value-based business model is inherently dynamic by including an element of business development and change, which is helpful as this study focuses on business model innovation.

Table 10: Theoretical foundation of business model element

Business model element	Theoretical foundation (concepts/theories)	Essential references
<i>Value proposition</i>	Customer value Customer equity Utility theory	(J. B. Smith & Colgate, 2007; Woodruff, 1997) (Matzler, 2000; Rust, Lemon, & Zeithaml, 2004) (Bowman & Ambrosini, 2000)
<i>Value creation</i>	Resource-based view Transaction cost economics Game theory Value chain/network	(Barney, 1991; Wernerfelt, 1995) (David & Han, 2004; O. Williamson, 1981) (Brandenburger & Stuart Jr, 1996) (Allee, 2008; Porter, 1998)
<i>Value communication and transfer</i>	Customer value Transactional/relational marketing	(<i>cf. value proposition</i>) (Morgan & Hunt, 1994; Pels, Coviello, & Brodie, 2000)
<i>Value capture</i>	Customer value Customer equity Resource-based view Industrial Organization Economics	(<i>cf. value proposition</i>) (<i>cf. value proposition</i>) (<i>cf. value creation</i>) (Lepak, Smith, & Taylor, 2007; Porter, 1980)
<i>Value dissemination</i>	Stakeholder theory	(Kochan & Rubinstein, 2000; Post, Preston, & Sachs, 2002)
<i>Value development</i>	Architectural innovation	(Henderson & Clark, 1990)

Source: Own representation.

¹⁷ The subsequent chapters A2.2.1 and A2.2.2 are mostly identical with sections of a book chapter that the author published with Prof. Dr. Thomas Bieger (2011, pp. 31-60). The author wishes to acknowledge his gratitude for the permission to use these materials as part of this study. Substantial deviations from the original are indicated.

¹⁸ While their description of their business model conceptualization has been tailored for a practitioner and MBA student audience, the subsequent chapters detail the concept for research use.

2.2.1 Overview

The *value-based business model* was designed to describe business activities of a focal organization in a holistic and integrated way. The business model consists of generic, predefined elements. The generic nature of these business model elements – including their respective underlying lower-level concepts – renders the concept applicable to any industry or organizational context (cf. Demil & Lecocq, 2010).

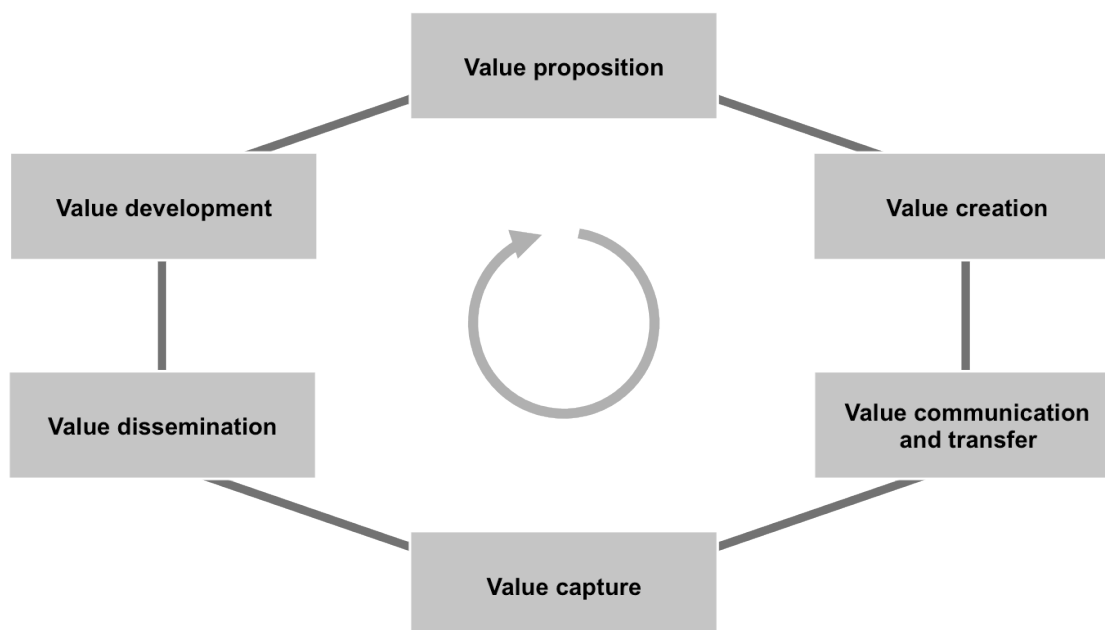
The value-based business model builds on the central premise that the primary objective of any organization is to create monetary and non-monetary value for its stakeholders (such as customers, suppliers, employees, investors, the public, etc.) as well as the organization itself (Lepak, et al., 2007; Slater, 1997). Based on this premise, we define the business-model as follows:

A business model describes the core logic of value creation of an organization. More precisely, a business model (1.) determines what an organization offers that is of value to the customer (i.e., the value proposition), (2.) how it creates value within a value network, (3.) how it communicates and transfers this value to customers, (4.) how it captures the created value in form of revenues and profit, (5.) how the value is disseminated within the organization and among stakeholders, and finally, (6.) how the value is developed to ensure sustainable value creation in the future.

This definition includes six business model elements (cf. Figure 4), each of which will be detailed in following sub-chapter: The first element, the *value proposition*, defines which products will deliver value for specific customer (groups) in addressing these customers' distinct needs. The 'product' includes material and immaterial products as well as services and bundles of both products and services or any other "unit of business" (McGrath, 2010). The second element, *value creation*, specifies how the value proposition is fulfilled, i.e., how the value is created for the target customers by means of internal and external resources and capabilities in a value network. The third element, *value communication and transfer*, addresses the channels that serve the focal organization of the business model to communicate with its customers and to distribute the products. These channels may be designed both from the focal organization to the customer as well as from the customer to the focal organization. The focus lies on how value is communicated and transferred to customers. The fourth element, *value capture*, delineates how the focal organization may capture the value that customers gain from products, in the sense delineated above, in the form of revenues. The fifth element, *value dissemination*, identifies how the value that the focal organization captures, is disseminated within the organization and the value network (including its

stakeholders) in order to secure the business model's financial sustainability and ensure cooperative value creation. The final element, *value development*, refers to the dynamic aspects of the business model. It defines how the focal organization develops the business model both in qualitative and quantitative terms as well as on an evolutionary and revolutionary basis.

Figure 4: The value-based business model



Source: Bieger and Reinhold (2011, p. 33).

Whether the configuration of a specific business model will result in a competitive advantage of some sort does not only rely on the specification of the individual business model elements; optimizing the systemic interaction of business model elements matters just as much (Teece, 2010). Some configurations of business model elements will only be of limited compatibility with each other. We therefore need an integrated perspective on all six business-model elements to ensure synergetic processes and decision-making.

2.2.2 Business model elements and their theoretical foundation

2.2.2.1 Value proposition

The value proposition defines what products, services, or combinations thereof are offered by a focal organization to distinct groups of customers.

The definition of a specific value for a relevant customer group in the form of a product, a service, or any combination thereof – sometimes also referred to as “unit of business” (McGrath, 2010) – is the outside-in starting point of any business model design or analysis.

The value that a customer derives from a specific unit of business – i.e., the *customer value* – results from comparing a product’s benefits with its associated costs in relation to the customer value forgone from alternative and rival offerings that would have addressed the same job to be done (Woodruff, 1997). This value assessment of an offering from the customer’s perspective is subjective and determines his/her willingness to pay (Bowman & Ambrosini, 2000)¹⁹. In addition, customers do not only incur this value at the brief moment of purchase or consumption for many products. Therefore, customer value needs to be managed along the entire buying and consumption cycle (J. B. Smith & Colgate, 2007; Zeithaml, 1988).

Smith and Colgate (2007) provide an integrated framework that synthesizes existing conceptualizations of customer value in four value categories that the unit of business of any value positions may address. Table 11 provides a description and dimensions for the four categories of customer value.

Table 11: Categories of customer value

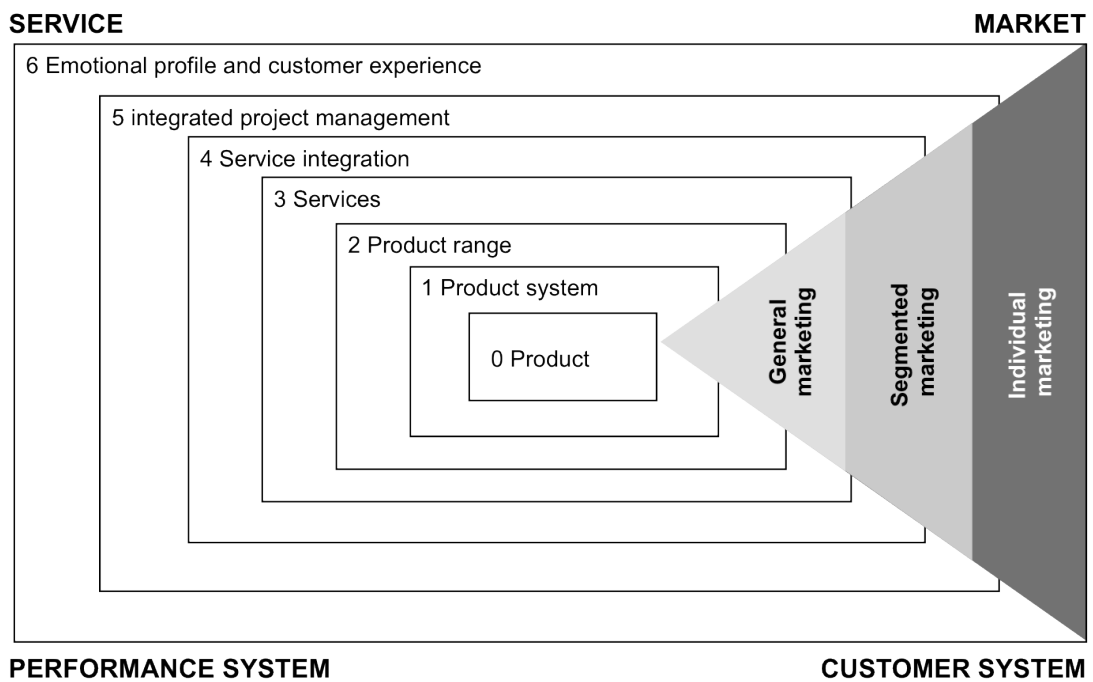
Functional/ instrumental value	Experiential/ hedonic value	Symbolic/ expressive value	Cost/ sacrifice value
<i>Descriptions</i>			
“concerned with the extent to which a product (good or service) has desired characteristics, is useful, or performs a desired function”	“concerned with the extent to which a product creates appropriate experiences, feelings, and emotions for the customer”	“concerned with the extent to which customers attach or associate psychological meaning to a product”	“concerned with ... [minimizing] the cost and other sacrifices that may be involved in the purchase, ownership, and use of a product”
<i>Dimensions</i>			
<ul style="list-style-type: none"> • Correct/accurate attributes • Appropriate performance • Appropriate outcomes 	<ul style="list-style-type: none"> • Sensory value • Emotional value • Social/relational value • Epistemic value 	<ul style="list-style-type: none"> • Self-identity/worth • Personal meaning • Self-expression • Social meaning • Conditional meaning 	<ul style="list-style-type: none"> • Economic costs • Psychological costs • Personal investment • Risk

Source: Adapted from Smith and Colgate’s (2007, pp. 11-14) customer value framework.

¹⁹ Note that Bowman and Ambrosini (2000) use a different terminology. They refer to customer value (i.e., the subjective use derived from a product) with the term “use value” and to the realized customer payments as captured by the quantitative aspects of customer equity with the term “exchange value”.

The value proposition specifies the sources of value not only in the form of plain products or services. The above dimensions of value categories can be specified for entire product systems that range from plain products to product ranges, product-service bundles, integrated problem solutions, project management, and finally to the customer experience of the purchase and consumption environment (Belz, 1997; J. B. Smith & Colgate, 2007).

Figure 5: Performance and customer system



Source: Adapted from Belz (1997, p. 23).

The needs and requirements of particular customer segments or single customers serve as the point of reference for the specification of the performance system (Belz & Bieger, 2004) illustrated in Figure 5: The plain product that stands at the core of a product system can cater to the needs of several customer segments, but the more differentiated and detailed the outer layers of the product system become, the more closely focused the value proposition becomes to a specific customer (group). Table 12 summarizes five design principles for performance systems.

Table 12: Design principles for performance systems

Principle	Description
<i>Integration</i>	The integrative design of the layers of a performance system should create synergies that benefit the customer.
<i>Charging</i>	Services derived from the performance system should be designed in a way that allows the focal organization to charge the customer and thus capture a share of the value.
<i>Participation and dialogue</i>	The design of an integrated performance system is based on collaboration with cooperation partners and in dialogue with customers.
<i>Evolution</i>	Performance and customer systems need to account for changes in customer needs and competitive market conditions.
<i>Relevance</i>	The designed performance system should address high priority customer needs.

Source: Adapted from Belz und Bieger (2004, p. 44).

The value proposition not only focuses on what matters for the customer (i.e., how value dimensions materialize in a product system), but also on which customers matter for the focal organization. Customers' relevance for the design of a focal organization's business model is captured by the concept of *customer equity*. Customer equity refers to the sum of all contributions that a specific customer makes to the contribution of an organization's goals (e.g., profitability, growth, and longevity) (Belz & Bieger, 2004). The equation²⁰ to calculate these contributions adds up to the sum of a customer's contribution to the positive cash flows of a focal organization (Rust, et al., 2004). However, qualitative criteria such as the centrality of certain customers as opinion leaders in a customer community complement the quantitative customer equity assessment. While these customers significantly contribute to achieving the focal organization's goals, they may add very little in terms of free cash flow. However, the experience of Bottom-of-the-Pyramid business models (e.g., J. Anderson & Kupp, 2008; J. Anderson & Markides, 2007; Hart & Christensen, 2002) and the Long-tail principle (e.g., Elberse, 2008) teach us that many customers with small contributions may be just as relevant as a few big clients who make up most of a focal organization's free cash flow.

Note that the monetary contributions captured by customer equity measurement are for most instances not equal to a customer's willingness to pay based on his/her subjective assessment of the unit of business' customer value (Bowman & Ambrosini, 2000). The difference between the customer's payment and the subjective value assigned to the unit of business denotes consumer *surplus*. Based on a not strictly rational version of utility theory, Bowman and Ambrosini (2000) argue *ceteris paribus* that

²⁰ Kumar and George (2007) review alternative ways of calculating customer equity.

customers will spend their money on the unit of business that will provide them with the largest customer surplus. The unit of business itself thereby denotes a certain configuration of customer value dimensions in Smith and Colgate's (2007) framework.

2.2.2.2 Value creation

Value creation defines how the focal organization fulfills the value proposition by means of its own and external resources and capabilities in a value network.

When the business model literature (e.g., Zott, et al., 2011) or organization and management literature in general (e.g., Lepak, et al., 2007; Pitelis, 2009) refers to value creation, it uses the term as a summary category for what is being offered to a particular customer group and the way this offering is being produced. However, the business model element termed "value creation" in the value-based business model does not focus on the "what" and "who" (i.e., the aspects addressed by the value proposition) but on *how* value is created.

This understanding of value creation as a business model element is based on the inside-out resource-based theory of the firm²¹ (Barney, 1991; Penrose, 1959; Wernerfelt, 1984, 1995). It conceptualizes "firms as bundles of resources and capabilities" (Amit & Schoemaker, 1993, p. 33) that result from these resources (Salvato, 2009) and builds on four central premises (Lewin, Weigelt, & Emery, 2004): First, resources are heterogeneous (Dierickx & Cool, 1989); second, unique and inimitable resources exist that can be exploited for superior rents (Barney, 1991); third, competition for these resources and their mobility are limited (Peteraf, 1993); and finally, dynamic capabilities such as the creation and integration of new knowledge and know-how are central to developing new capabilities (Barreto, 2010; Teece, Pisano, & Shuen, 1997). In this light, a focal organization creates value in a business model when it transforms the input to its production process into sources of customer value (Bowman & Ambrosini, 2000).

Resources are the input factors to the organizational production process, which are then transformed to products and services as specified by the value proposition (Amit & Schoemaker, 1993). Resources broadly fall into two categories: tangible resources (e.g., raw materials, production facilities, and funds) and intangible resources (e.g., knowledge and reputation) (Hall, 1992; Huff, Floyd, Sherman, & Terjesen, 2009).

²¹ For a discussion of the usefulness and limitations of the resource-based view refer to Priem and Butler (2001a, 2001b) and Barney (2001).

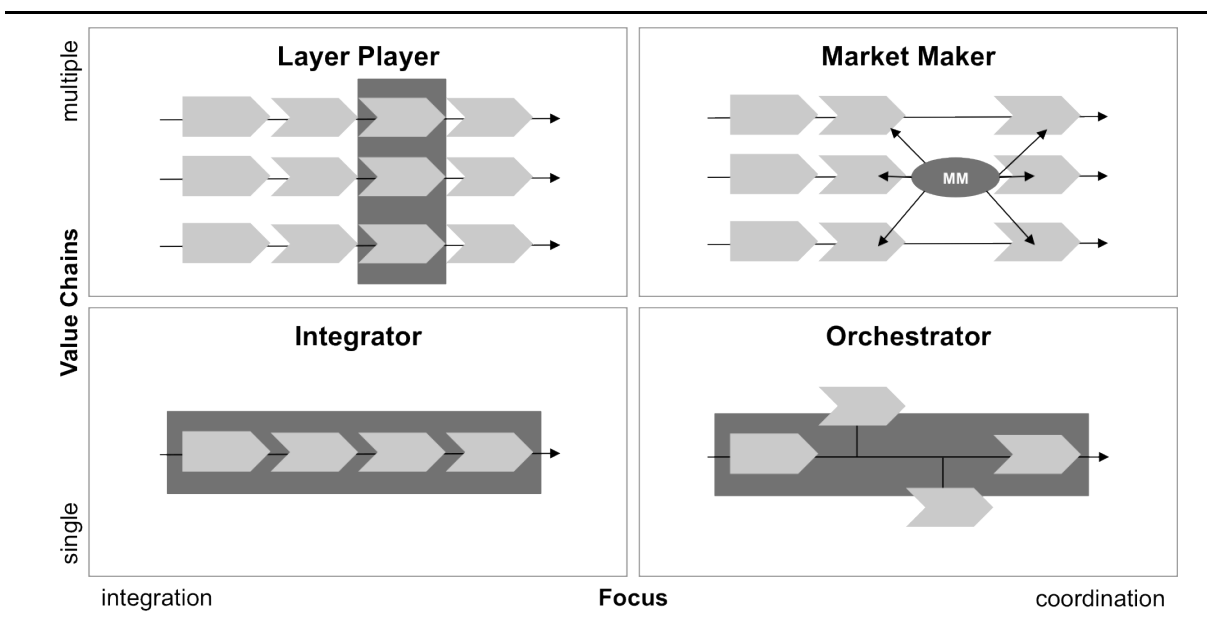
While case and context specific, both tangible and intangible resources can be key to deriving a competitive advantage from a business model (Johnson, et al., 2008; Teece, 2010). Johnson and colleagues (2008) provide an exemplary list that includes “people, technology, products, equipment, information, channels, partnerships, alliances, and brands” (p. 54).

Capabilities refer to the focal organization’s knowledge-based processes that enable the organization to use its resources’ services purposefully (Amit & Schoemaker, 1993; Demil & Lecocq, 2010). In contrast to resources, capabilities are firm specific and non-tradable because they develop from a complex process of interaction between different firm resources (Grant, 1991; Makadok, 2001). Raff (2000) and Tripsas and Gavetti (2000) provide two examples of how core capabilities mattered to the evolution and performance of the business model of American bookselling and Kodak respectively.

The key managerial choices for this business model element center on the question of how to organize value creation given the focal organization’s resources and capabilities. This requires specifying the activities the focal organization carries out in the value chain (Porter, 1998) and determining how to organize cooperation and co-production with partners, suppliers and potentially customers in a value network (Ansari & Krop, 2012; Stabell & Fjeldstad, 1998).

Knyphausen-Aufsess and Meinhardt (2002) and Schweizer (2005) identify four different roles in a value chain (cf. Porter, 1998) around which a focal organization might assume to structure its value creation activities in a business model²² (cf. Figure 6): The *specialist* or *layer player* is focused on a single value chain activity that it operates across different value chains (Schweizer, 2005). The layer player’s resources and capabilities are specialized for its specific activity set and allow realizing economies of scale. In addition, the specialization across value chains often enables above average quality. However, if the layer player lacks direct end customer access, it is highly dependent on other organizations that either coordinate the value chains to which the layer player contributes or that act as gate keepers to end customers.

²² Both publications build on Heuskel (1999) as the origin of this typology.

Figure 6: Functions within a value chain

Source: Adapted from Knyphausen-Aufsess and Meinhardt (2002, p. 73).

The *integrator* is in control of an entire value chain (Schweizer, 2005). It integrates the resources and capabilities necessary to conduct the entire set of value creation activities within a single focal organization. Hence, this arrangement is optimized for both economies of scope and low transaction cost. However, the stretch of a single focal organization over the entire value chain might come at a quality and cost disadvantage, for example, compared to layer players.

The *market maker* targets several value chains, just as the layer player (Schweizer, 2005). However, market makers act as a broker between value chains. Their set of resources and skills is focused on providing and bundling information as well as mediating access to different value chain participants. Despite their central position, market makers run the risk that participants that used to rely on the brokerage services of the market maker, find ways of direct interaction – rendering the market maker obsolete.

The *orchestrator* controls the better part of a value chain – just as integrators (Schweizer, 2005). However, the orchestrator does not attempt to consolidate all value creation activities within a single organization. It outsources activities to specialized partner organizations with specialized resources and capability sets for the respective parts in order to draw on their relative cost and quality advantages. While the orchestrator tries to combine the benefits of controlling most of a value chain with specialization benefits, the market maker faces high levels of transaction cost and dependency on specialized partner organizations.

Stabell and Fjeldstad (1998) in general, and Peppard and Rylander (2006) for mobile operator business models, have pointed to the limits of the value chain analysis when analyzing non-manufacturing firms, co-opetition or co-production with customers and partner organizations. The value chain is specialized to identify a sequence of key activities that are necessary to turn inputs into a specific product (Stabell & Fjeldstad, 1998). The value-based business model therefore suggest complementing the value chain with a value network analysis that identifies the simultaneous and interdependent contributions of key actors in the value creation process (Allee, 2008; Ansari & Krop, 2012; Hamel, 2000; Peppard & Rylander, 2006; Shafer, et al., 2005).

Along with the choice of position and function within the value network, the focal organization has to determine ways to integrate external resources and capabilities into the value creation of its business model. The organization may access this external input to value creation through market transactions, cooperation, a strategic alliance, or integration. Transaction cost economics (Coase, 1937; O. Williamson, 1979, 1981) and game theory (Saloner, 1991) provide the theoretical arguments to decide on the intensity and governance of cooperation.

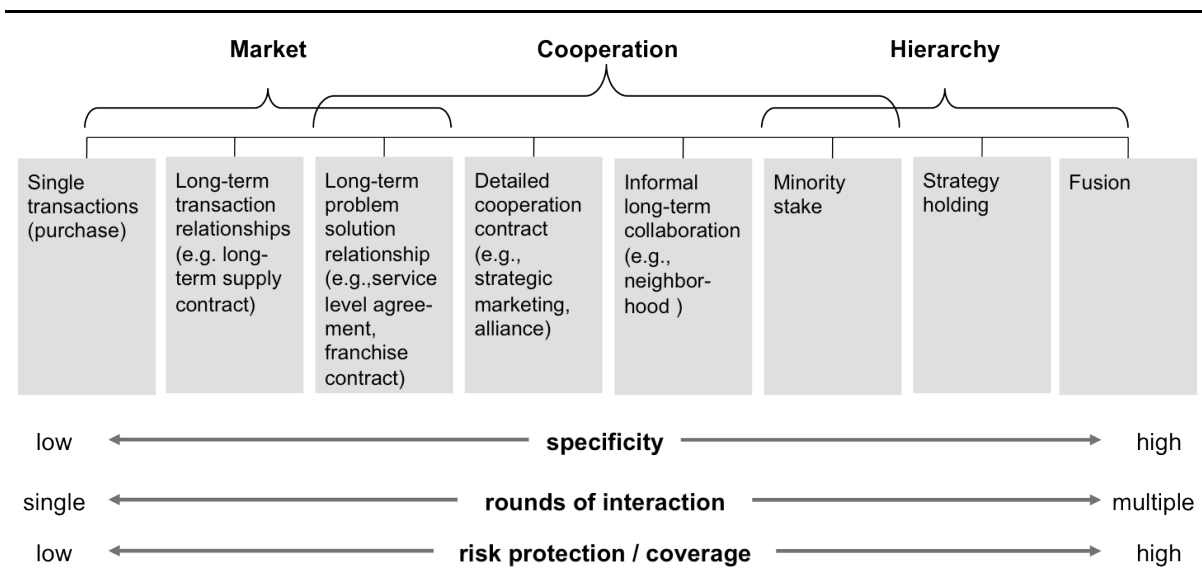
Transaction cost economics²³ explains the choice of transaction mode between hierarchical and market-based relationships on the basis of transaction cost optimization relying on three central premises (Lewin, et al., 2004): First, economic actors display opportunistic behavior to maximize their own good; second, economic actors are boundedly rational; and finally, efficient transaction structure and governance may serve as a cornerstone of competitive advantage (O. Williamson, 1979, 1991).

The choice of a suitable transaction arrangement is contingent on three factors (Klein, Crawford, & Alchian, 1978; O. Williamson, 1979, 1983): First, *specificity* refers to the degree the focal organization has to invest in resources and capabilities that are tied to and specified for particular transactions. On an aggregate level, Williamson (1981) distinguishes between site specificity (e.g., when natural resources are tied to a specific geographic location) and asset specificity (e.g., production machinery or personnel with a transaction-specific skill set). Second; *uncertainty* is concerned with potentially adverse effects that uncertain environmental events or transaction partners' behaviors might have on the focal organization's transaction outcome (Rindfleisch & Heide, 1997). Finally, the *frequency* of transactions matters with regard to specialization effects and returns from economies of scale (O. Williamson, 1981). As illustrated

²³ For a discussion of the theory's limitations and an assessment of transaction cost economics' empirical support refer to David and Han (2004).

in Figure 7, the more frequent, uncertain, and specific transactions are, the more suitable a hierarchical transaction arrangement to protect the transaction partners' interests is.

Figure 7: Choice of transaction governance and structure



Source: Bieger and Reinhold (2011, p. 41).

Game theory allows modeling the decision behavior of actors engaging in transactions based on uncertainty consideration and the number of rounds played (Brandenburger & Stuart Jr, 1996; Nalebuff & Brandenburger, 1996; Saloner, 1991): In a single round game, each transaction partner opportunistically maximizes his/her own gain; however, if a game takes several rounds, transaction partners need to take the opposite party's response (i.e., cooperation or retaliation) to their own behavior into account. This is why hierarchical and hybrid forms of cooperation define sanction measures in case of misconduct by either transaction party.

Of course, any decision made on how to specifically create value must be designed with reference to the target customer groups and the promises upheld in the value proposition.

2.2.2.3 Value communication and transfer

Value communication and transfer determines how a focal organization communicates with its customers and how the value proposition is delivered via a transfer between the focal organization and its customers.

While the transactions and interaction on the supply side of a business model are the focus of the value creation element, value communication and transfer is preoccupied with the communication and transfers between a focal organization and its customers on the business model's demand side.

Managerial choices for this business model element fall into two areas: first, the communication between a focal organization and its customers, and second, the transfer and/or procurement of the unit of business that has been specified in the value proposition. Both types of channels can be unidirectional or bidirectional and thus allow flows from the focal organization to customers as well as vice-versa. The use of several channels for value communication and transfer requires tight integration, as customers tend to swap channels along the buying cycle (Day, 2011; Neslin et al., 2006).

Framing customer communication is at the core of the marketing domain. Table 13 summarizes managerial choices regarding the design of value communication.

Table 13: Key managerial choices regarding value communication

Decision	Description
<i>Communication goals</i>	Non-monetary objectives: What effects (information, change in attitude, remembrance etc.) does the communication aim for? Monetary objectives: What sales-oriented objectives does the communication pursue?
<i>Communication recipient</i>	What target recipients does the communication address (who: existing, potential customers, cooperation partners, opinion leaders, etc.; how many customers etc.)
<i>Communication budget</i>	What quantity of resources is available for a specific communication purpose?
<i>Communication content</i>	How should the communication's message be designed in terms of content (factual, emotional) and visualization?
<i>Communication channels</i>	What communication channels (print, tv, radio, internet, product placement, point-of-sales, billboard ad displays, etc.) target the selected recipients best to convey the intended message given the communication's goals and budget?

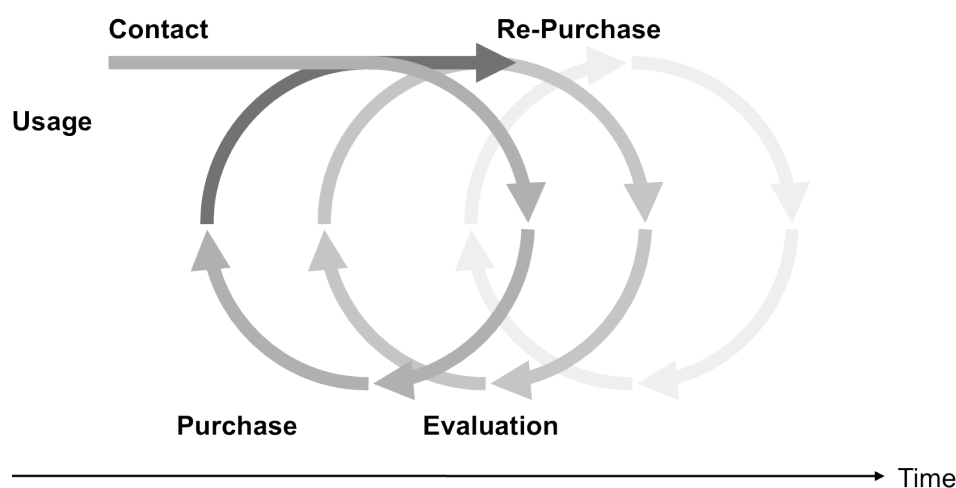
Source: Adapted from Kotler and Keller (2009, p. 538 et sqq.).

The focal organization's communication with customers can be either transaction- or relationship-oriented (Gummesson, 1987; Morgan & Hunt, 1994; Pels, et al., 2000): *Transactional* marketing measures target short-term transactions with target customers; *relational* marketing measures, however, try to build a stable long-term relationship with a customer in order to avoid customer migration, create a lock-in (Pressey & Mathews, 2000), ensure recurrent purchases, and eventually, over time, increase the share of wallet (Cooil, Keiningham, Aksoy, & Hsu, 2007). In addition, the cost of customer acquisition and transactions are spread over a series of transactions, and com-

mitted repeat-customers engage in positive word of mouth (Hennig-Thurau, Gwinner, & Gremler, 2002).

Figure 8 illustrates the generic stages of a buying process (Bieger, 2004), starting with the initial interest and then progressing through the evaluation of alternative offerings and the purchase decision, to the usage of the product/service, all of which are accompanied by communication, sales and distribution measures. For many product categories, the customer enters re-purchase after the usage stage. At that point, the customer builds on his/her previous experience with both the value delivered by the unit of business as well as the focal organization that stands behind the value proposition, which simplifies the buying process considerably (Bieger et al., 2004).

Figure 8: Buying and selling cycle



Source: Bieger (2004, p. 64).

The progress of information and communication technologies (e.g., web 2.0 developer platforms) enables focal organizations to communicatively include their customers in the value creation process on an unprecedented scale – as *co-producers* (Wikström, 1996). Companies such as LEGO, IKEA, and THREADLESS, for example, use customers' conceptual designs and suggestions to individualize and design new products (e.g., Antorini, Muniz, & Askildsen, 2012).

The distribution channels define the focal organization's access to its customers that is required to fulfill the value proposition (Kotler & Keller, 2009). For example, the distribution channels may take the form of a product sale at a point-of-sales, the provision of a service to a specific customer at a service point, or the sales of digital goods like software or electronic magazines over an e-commerce platform. In addition,

the channels may also detail the delivery or pick-up of products and services as well as the procurement of information goods using electronic channels – especially for disembodied, knowledge-based services. Table 14 summarizes key managerial choices for designing value transfer.

Table 14: Key managerial choices regarding value transfer

Decision	Description
<i>Distribution goals</i>	<p>What are the acquisition-related objectives of the distribution system (relationship of channel members and task division)?</p> <p>What physical and logistics objectives does the distribution system need to fulfill (transport, storage, delivery, etc.)?</p> <p>What characteristics of the unit of business and the customers are relevant for the design of the distribution system?</p>
<i>Distribution members</i>	<p>By means of which members in the distribution channel (e.g., corporate sales representatives, wholesalers, retailers, or cooperation partners) will the focal organization transfer the unit of business?</p>
<i>Distribution flow</i>	<p>How is the flow within the distribution channel designed: direct or indirect (i.e., number and type of distribution members); intensive (i.e., optimizing geographical reach), selective (i.e., some selected intermediaries) or exclusive (very few intermediaries)?</p> <p>What effect does the design of the distribution channel have on capital requirements, cost and revenues?</p>

Source: Adapted from Kotler and Keller (2009, p. 450 et sqq.).

In line with the above considerations of relational and transactional marketing, distribution channels can also be designed for a long-term relationship with the customer (Lusch & Brown, 1996; Nevin, 1995; Weitz & Jap, 1995). Bieger (2004) advises designing the distribution channels over the entire customer buying cycle. In this process, communication and transfer of the unit of business become increasingly intertwined – especially in the case of high-involvement goods, which depend on knowledge or information to a considerable extent. For example, the customer who has his beloved motorcycle serviced at a dealership might receive information on the latest motorsports trends while s/he is waiting.

Smith and Colgate (2007) point out that both the communication between the focal organization and customers as well as the transfer of the unit of business serve as a *source of customer value*: communication, for example, informs and educates the customer about the value proposition's functional traits (functional/instrumental value) or it assists customers in their buying decision (cost/sacrifice value); transfer via distribution channels contributes, for example, to customer satisfaction via the design of the procurement process (experiential/hedonic value) or by providing psychological coverage by means of a parcel tracking service to follow the delivery progress of an expensive new electronic gadget (cost/sacrifice value) (J. B. Smith & Colgate, 2007).

Decisions regarding value communication and transfer prove particularly challenging for the design of bottom-of-the pyramid business models in third world and developing countries (J. Anderson & Markides, 2007): Wholesale chains are lacking, road and rail networks are insufficiently developed and impassable at certain times of the year, and certain classes of the population are difficult to reach with traditional mass media communication. Companies like TATA and HINDUSTAN LEVER in India or SMART COMMUNICATIONS in the Philippines devised alternative approaches to value communication and transfer than we are used to in the triad markets in order to guarantee communication with their customers and the delivery of the value proposition (J. Anderson & Kupp, 2008; J. Anderson & Markides, 2007; Hart & Christensen, 2002; Prahalad & Hart, 2002): micro-franchises (very small outlets run by students or stay-at-home moms/dads as a sideline), product drop-off by plane, billboards on auto-rickshaws, selling and shipping cars as DIY-kits to local dealers, and artist groups that perform in rural villages to educate people about the use and usage of certain products.

2.2.2.4 Value capture

Value capture defines how the value the focal organization creates for the targeted customers is appropriated and flows back to the organization in the form of revenues.

The focal organization's revenues are determined by the monetary transactions with the suppliers of input to its production process and prices realized from exchanges with customers (Bowman & Ambrosini, 2000). The resource-based theory of the firm explains how firms can use specific types of resources to prevent value slippage²⁴ to competitors because they serve as an isolating mechanism (Barney, 1991; Lepak, et al., 2007). Hence, these resources and the associated capabilities enable the focal organization to offer a value proposition that the customer associates with superior customer surplus (Bowman & Ambrosini, 2000). However, the outcomes of the transactions with suppliers and customers are also a function of the bargaining power of involved parties (Bowman & Ambrosini, 2000) as argued in the industrial organization economics literature (Porter, 1980).

The "value capture" business model element distinguishes value appropriation on two different levels: capturing customer value (1st level) and appropriating shareholder or the focal organization's value (2nd level), which results from the former. On the first level, target customers need to recognize the customer surplus that a value proposition

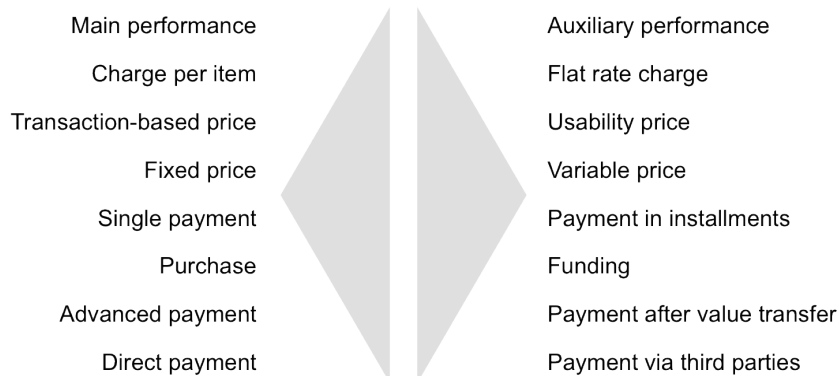
²⁴ Svejenova and colleagues (2010) demonstrate for an individual entrepreneur's business model that not all value slippage is necessarily unintended or disadvantageous.

offers in order for customer equity to materialize in the form of revenues (Bowman & Ambrosini, 2000). Moreover, the focal organization needs to devise ways to appropriate the value created.

The basic equation that determines revenues resulting from transactions in a business model is price times volume (Johnson, et al., 2008). The focal organization's focus lies either on the volume-side of the equation when it concentrates on high volume low margin transaction or on the price-side of the equation when it targets a market niche with a highly differentiated value proposition (Johnson, 2010). Thus, Johnson (2010) points out that volume not only refers to the number of product, but also the number of targeted customers, (re-)purchasing frequency, and the number of transaction per customer.

The design of revenue streams to capture value within a business model can be structured along eight dimensions (Bieger, Rüegg-Stürm, & Rohr, 2002; Casadesus-Masanell & Zhu, 2013; Johnson, 2010), as Figure 9 illustrates.

Figure 9: Dimensions to design revenue streams



Source: Adapted from Bieger, Rüegg-Stürm and von Rohr (2002), Casadesus-Masanell and Zhu (2013), and Johnson (2010).

First, a focal organization can generate its revenues from its *main or auxiliary performances* (cf. performance system, Figure 5, p. 43). For example, an integrated ski resort may offer its day ticket at a low price if this measure attracts customers whom the organization can charge a price premium for services in its ski and snowboard rental centers and who frequent its restaurants with higher profit margins (Bieger, et al., 2002). Second, the products and services consumed at the ski resort may be *charged per item or at a flat rate*.

Third, the price attached to the unit of business maybe *transaction-based* for the actual use of a product or service (e.g., the amount of network data consumed or the

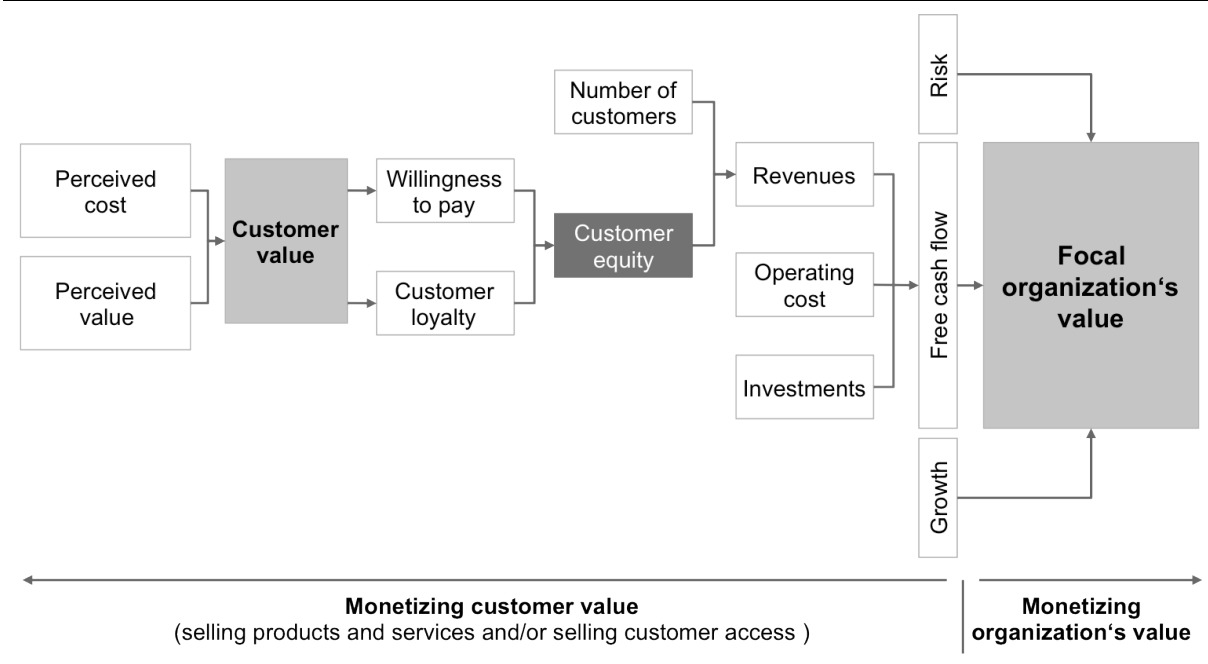
number of minutes of connectivity for mobile service) or on the basis of *general usability* – without limits to the number of transactions (Bieger, et al., 2002).

Moreover, the focal organization may price its unit of business at a *fixed or variable* price. The price may vary with demand characteristics or customer equity, as is the case for airfares. In addition, business models that build on a high number of low-income customers rely less on *single payment* than on *installments* and, sixth, the examples given in the literature favor *funding* over *purchases* (e.g., Prahalad & Hart, 2002).

Seventh, the payment for the received value may be *due at the time of value transfer or in advance*. This is, for example, one of the advantages of Amazon's online bookstore over traditional book wholesalers (Johnson, 2010). Finally, the payment for the value that the customer received may *flow directly from the customer* to the focal organization or may be financed or *sponsored indirectly via third parties* (Casadesus-Masanell & Zhu, 2013).

Besides selling products and services to customers, to whom the above dimensions refer, the focal organization may also realize customer equity by *monetizing access to attractive customers*. For example, airlines that sell their tickets to customers over the phone refer their customers to car rental companies. At the end of the pitch for the airline ticket, the clerk offers to put the customer through to a car rental sales representative. If the customer agrees to be connected, the airline realized the value derived from its prime customer access by means of a compensation contract with the car rental company.

On the second level, the value creation business model element defines the focal organization's value. As Figure 10 illustrates, the focal organization's value is determined on the basis of discounted free cash flows, which calculate the organization's value as the total of realized customer equity and thus realized free cash flow per customer (Matzler, 2000). The organization's value can be monetized either internally or externally: internally by multiplying the business model, for example, by leveraging the business model configuration in a franchise system or by building on brand extensions; externally, the shareholders may realize the organization's value in part or total by selling their share of the company.

Figure 10: Customer value, customer equity and the organization's value

Source: Adapted from Matzler (2000).

2.2.2.5 Value dissemination

Value dissemination determines how the appropriated value is disseminated to the focal organization's stakeholders in order to ensure the business model's sustainability in terms of funding and the value creation partners' willingness to cooperate.

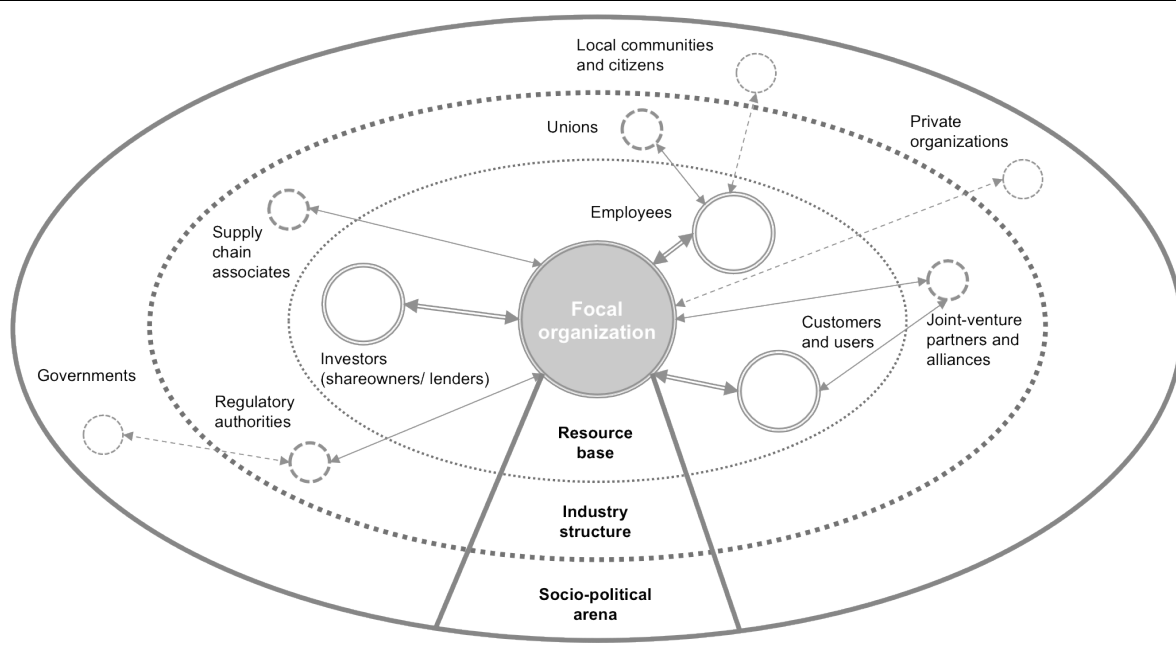
The target of value capture is not just the focal organization itself. It appropriates value for different stakeholders such as business owners, employees, suppliers or a broader public (Lepak, et al., 2007). In this process, the focal organization devises a "fair" scheme to disseminate the value it captured from its customers in order to motivate the organization's stakeholders to contribute to its business model on a long-term basis (Kochan & Rubinstein, 2000; Post, et al., 2002).

Three circumstances exemplify the relevance of value dissemination. First, not only direct stakeholders such as one's suppliers and employees that affect the resource base and contribute to value creation affect the viability of a business model (Post, et al., 2002). For example, the focal organization's business-to-business customers' end customers matter and need to be motivated to support the business model at hand. The same is true for a supplier's shareholder, on whose technological solution the focal organization critically relies. Hence, the dissemination of value is much more complex than the set of dyadic direct relationships in value creation might imply (Rowley, 1997). Second, the increasing emphasis on intangible sources of value in the

knowledge and networked economy (Achrol & Kotler, 1999; Powell & Snellman, 2004) implies that value can be disseminated in forms other than the monetary. Stakeholders may be motivated to contribute to and support a business model in exchange for attention, reputation, or information (e.g., MacMillan, Money, Downing, & Hillenbrand, 2005). Finally, information and communication technology facilitates public interest groups to organize and voice their concerns in the socio-political sphere (Post, et al., 2002). At the same time, these groups may either directly affect demand for a business model's value proposition or impact relevant legislation that affects the business model. Therefore, value dissemination considers regional value creation and benefits for local communities.

Figure 11 provides an exemplary illustration of a network of stakeholders and illustrates some potential relationships in relation to three strategically relevant layers based on Post, Preston and Sachs' (2002) extended enterprise framework: the resource base, industry-market structure and the socio-political arena. In their framework, stakeholders "are individuals and constituencies that contribute either voluntarily or involuntarily, to its [the focal organization's] wealth-creating capacity and activities and who are therefore its potential beneficiaries and/or risk bearers" (Post, et al., 2002, p. 8).

Figure 11: Exemplary stakeholder network to consider for value dissemination



Source: Adapted from Post, Preston, and Sachs (2002, p. 10).

Value dissemination has to be managed in a way that allows both motivating relevant stakeholders to support the business model as well as for the focal organization to retain sufficient value in order to grow and develop the business model (Lepak, et al., 2007). Thus, devising the share of captured value to which partners in the value network are entitled is a challenging task. Three criteria may guide the assessment of a stakeholder's share in value dissemination (Bowman & Ambrosini, 2000; de Reuver, Bouwman, & Haaker, 2009; Kochan & Rubinstein, 2000): First, the *cost* the value network partner incurs by contributing necessary resources and putting them at risk; second, the network partner's *contribution* to the value network's overall attractiveness (e.g., contributing reputation, information, innovation or value of an option) and to the specific value creation process; and finally, the *perceived power* the network partner has over the focal organization and the value network.

The decision process that determines value dissemination follows a hierarchical, a cooperative or a market logic (Ring & Van de Ven, 1992). For example, in the production of physical goods like automotive products, it is commonplace for a focal organization that steers the value network and controls customer access to define value dissemination hierarchically. For other value propositions such as those referring to touristic or transportation services, customer access is decentralized and value dissemination is organized following cooperative or market logic (e.g., Flagestad & Hope, 2001). Airlines within strategic alliance networks, for example, define pro-rates to disseminate value (e.g., Whalen, 2007). However, outside of these alliance networks, compensation for flight routes is determined by industry standards.

2.2.2.6 Value development

Value development describes how the focal organization develops value creation and capture within the business model and how it develops and innovates the business model on an evolutionary and revolutionary basis to account for changes in general conditions.

Value development entails the dynamic aspects of the value-based business model²⁵. Two reasons justify relevance of these aspects for the viability of any business model configuration: First, it is essential to optimize a business model from the focal organization's perspective. A number of authors (e.g., Chesbrough, 2010; McGrath,

²⁵ Note: Due to its research focus this chapter excludes Johnson's (2010) and Johnson and colleagues' (2008) normative explanation on the succession of innovation types and advice on situations that call for business model changes, which was a part of Bieger and Reinhold's (2011) original chapter.

2010; Sosna, et al., 2010) have pointed out that business models are subject to learning and optimization in implementation because the assumptions underlying the initial business model draft need validation and adjustments. However, also incumbent business models once learned are not perfectly stable and rigid as Demil and Lococq (2010) explain based on the resource-based theory of the firm: A value network participant's resources exhibit unrealized service potential that allow the optimization and development of existing value propositions and as knowledge evolves, this resource exhibits the same potentials. Secondly, from an outside perspective, the context of value creation and capture is in constant flux. The business model needs to adapt to changes deriving from altered or new legislation and regulation, technological innovation, shifting priorities in customer needs (Teece, 2010) or competitors introducing new business models (Casadesus-Masanell & Zhu, 2013). For example, new technologies may shift the power of actors in a value network or weaken the isolation mechanism used to capture value from customers.

To change or innovate a business model is no easy endeavor. The systemic interdependence of co-specialized business model elements implies that a change in an element alters the balance of the business model architecture (Teece, 2010; Zott & Amit, 2010). The argument that leads to this conclusion is the insight that only a business model that is optimized as a system will lead to a competitive advantage recognized by customers as consumer surplus (Teece, 2010).

The value-based business model distinguishes three modes of value development based on the degree of change in business model elements and the overall business model architecture²⁶: quantitative growth, evolutionary and revolutionary development (cf. Figure 12). These three modes are based on Zollenkop's (2006) adaptation of Henderson and Clark's (1990) systematization of product innovation by change in components or architecture. The focal organization's existing business model serves as a point of reference to judge the degree of change in both elements and architecture (N. Anderson, De Dreu, & Nijstad, 2004). Hence, while revolutionary change might require a huge change effort on behalf of the focal organization, other organizations might already deploy a similar business model. Therefore, the result of the revolutionary value development mode may or may not represent a world novelty.

²⁶ The way this business model element has been conceived does not intend to imply any a-priori conception of business model innovation. In line with other authors, we argue (only) that business models are not necessarily stable and that they may change a little or a lot.

Figure 12: Modes of value development

		Business model elements		
		no change	incremental change	radical change
Business model architecture	radical change		Revolutionary development	Revolutionary development
	incremental change	Evolutionary development	Evolutionary development	Revolutionary development
	no change	Quantitative growth	Evolutionary development	

Source: Adapted from Zollenkop (2006, p. 131) and Henderson and Clark (1990, p. 12).

Quantitative growth refers to an expansion of business activities within an existing business model – that is, without modification of existing business model elements or architecture. The focal organization might realize this through an increase in sales to existing customers (in terms of volume and frequency) or by geographic expansion. The prime driver for quantitative growth is the potential to increase the focal organization's value through increased free cash flows.

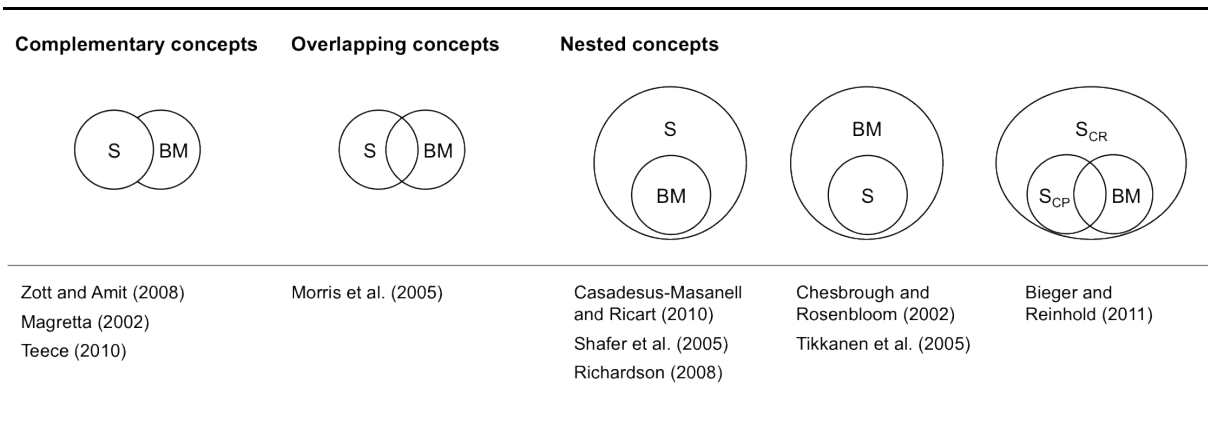
Evolutionary development refers to an incremental change that occurs at least in either business model elements or architecture. For example, the focal organization might incrementally change its performance system based on product innovations that were facilitated by new technologies, as traditional mobile phone manufacturers did when they added the first smart features to their existing handsets (J. Anderson & Jönsson, 2006). Other examples of incremental changes include the migration of a low-cost business model from one industry to another (e.g., EASYCINEMA) (Yip, 2004) or modification of value capture mechanisms by South American low-cost airlines offering low-income customers fares that could be paid in installments (Umbeck, 2009). Drivers of evolutionary development and factors that motivate these kinds of

changes are mostly product and service lifecycles as well as changes in contextual factors – besides optimizing the focal organization's value. Demil and Lecocq (2010) point out that evolutionary development may be the result of both voluntary efforts and emergent changes resulting from uncoordinated business model element adjustments.

If a change to a business model is at least incremental on one of the axes in Figure 12 and at the same time revolutionary on the other axis, the change is referred to as *revolutionary development*. Characteristic for this type of business model change is that – from the focal organization's point of view – the value proposition both addresses new markets or needs and creates new forms of customer value. Examples of revolutionary development include AMAZON's business model for book retailing (Raff, 2000), DELL's on-demand PC configuration for the personal computer industry (Magretta, 2002), and the low-cost, point-to-point no frills flight offers by EASYJET and RYANAIR for the European aviation market (Casadesus-Masanell & Ricart, 2010b; Markides, 2008). While technology is an important driver of revolutionary change, it is not the only one (Chesbrough, 2007; Teece, 2010). Changes in contextual factors (e.g., regulation, competition, technological environment, and customer needs) or initiatives from within the focal organizations might serve as an impetus to change the logic of value creation and capture.

2.2.3 Relationship of business model and strategy

As a relatively new concept in the field of organization and management studies, the business model has to demonstrate its unique value and delimit itself from longstanding concepts – in particular from strategy. Subsequently, I distinguish three types of conceptual relationships on a set theoretical basis (cf. Figure 13) to discuss the business model's relationship with strategy (i.e., complementary concepts, overlapping concepts, and nested concepts) before the value-based business model's relationship to strategy is specified.

Figure 13: Relationship of business model and strategy

Note: “BM” denotes business model; “S” denotes strategy; “S_{CR}” denotes corporate strategy; “S_{CP}” denotes competitive strategy. Source: Adapted from Seddon, Lewis, Freeman, and Shanks (2004, p. 428)

It is uncontested at this point that the idea of a business model concept as discussed in the literature reviewed in chapter A2.1 has some relation to strategy and strategic issues (cf. Zott, et al., 2011). The business model is associated with central concepts and theories of strategy research and the value-based business model is no exception. However, scholars disagree on the type of strategy and the business model’s relationship²⁷.

Zott and Amit (2008), Magretta (2002), and Teece (2010) argue for a *complementary* conceptualization of the business model and strategy. In possibly the only empirical test of the difference between the business model and product-market strategy, Zott and Amit (2008) conclude that the two concepts are of a complementary nature. However, this does not settle the discussion. The results hold for their definition of a business model (cf. Amit & Zott, 2001), which does not include the value proposition or elements of value capture that are a critical part of many other definitions (e.g., Chesbrough & Rosenbloom, 2002; Johnson, et al., 2008; Magretta, 2002). Moreover, the operationalization of product-market strategy includes cost leadership and differentiation strategy and market-entry timing to ultimately achieve competitive advantage but excludes the choice of geographic markets, customers, and products to sell (Zott & Amit, 2008). However, these last three elements, which are part of product-market strategy in Zott and Amit’s (2008) view, pertain to the target of value creation in other authors’ business model conceptualizations. Thus, the transfer of Zott and Amit’s

²⁷ The controversial discussion among Strategy scholars in a professional development workshop on business model innovation and competitive advantage at the 2012 Academy of Management Meeting may serve as an anecdotal evidence to support this point.

(2008) findings to other authors' business model conceptualizations is limited. With caution we may infer, though, that the competitive positioning is complementary to the design of value creation activities by the focal organization and a network of cooperation partners. Magretta (2002) echoes this last point when she states that strategy complements the decision she includes in the business model domain with an explanation of "how you will do better than your rivals" (p. 6). Finally, for Teece (2010), the business model and strategy complement each other such that the insights from strategic analysis inform the design of the business model. He maintains that the business model is much more generic than a granular business strategy (Teece, 2010).

Morris and colleagues (2005) take yet a different stance because they conceptualize the business model and strategy as *overlapping* concepts. The authors emphasize that the business model "is not a strategy but includes a number of strategic elements" (Morris, et al., 2005, p. 727). The definition of business strategy the authors employ is not very clear, but they do quote a list of "central ideas in business strategy" (Morris, et al., 2005, p. 729) on which they rely. While Morris and colleagues' (2005) business conceptualization is created with reference to strategy, it seems to put more emphasis on value creation and capture than their notion of strategy.

The final group of authors maintains that strategy and the business model relate in a *nested* fashion, with one higher-level concept subsuming the other. On the one hand, Casadesus-Masanell and Ricart (2010b), Shafer and colleagues (2005), and Richardson (2008) argue that strategy – as a higher-level concept – encompasses the business model. Casadesus-Masanell and Ricart (2010b) conceptualize the business model as a set of choices and consequences that reflect management's strategic decisions. As every organization has made some decisions that resulted in consequences – at least when it started operations – every organization operates a business model (Casadesus-Masanell & Ricart, 2010b). However, the authors point out that not every organization has an explicit strategy. Strategy is a broader, higher-level concept that the authors define as "a contingent plan of action [...] that entails designing business models (and redesigning them as contingencies occur) to allow the organization to reach its goals" (Casadesus-Masanell & Ricart, 2010b, p. 205). The ex-post definition of the business model as a set of choices and consequences limits the transfer of this nested conceptualization to other definitions. Especially the fact that elements that other definitions would include in the realm of the value proposition are included in tactics hampers direct comparisons. Shafer and colleagues (2005) view the business model also as a reflection of strategic choice. They argue as well that a given strategy might enable

multiple business model configurations (Shafer, et al., 2005). However, unlike Casadesus-Masanell and Ricart (2010b), they put more emphasis on the business model's role between managers' strategic choices and the implementation of these choices on an operational level (Shafer, et al., 2005). In a similar vein, Richardson (2008) argues that business models "intermediate between the firm's abstract theory of how to compete, and the myriad of details in its operations" (p. 134). Unlike the other two, Richardson (2008) details value creation and value capture in ways that are more common. However, he is not as clear as Casadesus-Masanell and Ricart (2010b) as to what extent strategy goes beyond what the business model specifies (Richardson, 2008).

On the other hand, Chesbrough and Rosenbloom (2002) and Tikkanen and colleagues (2005) conceive nestedness the other way around: Strategy is part of the business model. Chesbrough and Rosenbloom (2002) include competitive strategy as one of the elements of their business model concept. However, the authors maintain that the business model and a general notion of strategy differ in three critical aspects (Chesbrough & Rosenbloom, 2002): The business model puts more emphasis on value creation and is less concerned about the potential impact of competition on value capture; the business model is less concerned with the origins of its resources than strategy; and the business model assumes a less perfect view of economic actors' rationality and information than the traditional strategic planning school. Finally, Tikkanen and colleagues (2005) include strategy as a business model element that influences the configuration of all other business model elements – in their case, organizational structure, network relationships, operations and finance/accounting.

The review of the three types of relationships between the business model and strategy demonstrates that the conceptualization of this relationship is contingent on the details of the individual author's definitions of both the business model and strategy. There is, at this point, no definitive and universal answer to the question of how the business model relates to strategy. Thus, based on this contingency, the subsequent paragraphs detail the specification of this very relationship for the value-based business model.

The value-based business model relates to two different levels of strategy: It shares a nested relationship with corporate strategy and an overlapping relationship with competitive strategy. *Corporate strategy* refers to high-level strategy that defines the focal organization's purpose, major policies and goals as well as the contingent plans to achieve these goals (Andrews, 2003; Casadesus-Masanell & Ricart, 2010b; Quinn,

2003). The definition of organizational purpose, which specifies what business the focal organization perceives itself to be in, together with the contingent plan define the potential scope for value creation and capture, which can be addressed by different business model configurations (Casadesus-Masanell & Ricart, 2010b).

Although the business model represents a specification of strategic choices on the corporate level, it is – on a lower level – not equivalent to *competitive strategy*. Instead, the value-based business model and competitive strategy (Zott & Amit, 2008) overlap. Both concepts cover what units of business to sell to what customers and what value the customer might derive from a purchase (i.e., the value proposition). Yet, the value-based business model puts more emphasis on the outside-in perspective and has a more multilayered view of customer value. The aspects that conceptually differentiate the value-based business model from competitive strategy are the external orientation in value creation and transfer as well as its emphasis on value capture, dissemination, and development. Thus, the value-based business model mediates between abstract strategic choice and decisions on an operational level (cf. Richardson, 2008; Shafer, et al., 2005) when it consistently explains the logic of value creation and capture of the focal organization. Competitive strategy, on the other hand, is conceptually exclusive in its focus on competition and market positioning (Casadesus-Masanell & Ricart, 2010b; Chesbrough, 2002).

In line with Casadesus-Masanell and Ricart (2010b), we maintain that every organization has a business model but not necessarily a strategy. Because the value-based business model specifies the logic of value creation and capture, a business owner might set up his or her business model unconsciously when he or she starts producing goods at a workshop which are then being sold to customers on a market. Doing so does not, however, imply that he or she has considered her overall business goals or evaluated responses in terms of policy change in case contextual conditions of the business should change. Finally, this also implies that business models may also develop emergently and outside of top-down driven planning (Demil & Lecocq, 2010).

In conclusion, strategy generally serves as a frame of reference for the development and the definition of the (value-based) business model. The selected business model allows identifying part of the realized strategy, but a single strategy may accommodate various contingent business model configurations (Casadesus-Masanell & Ricart, 2010b). The business model is not just a simplified depiction of a strategy but rather a specification of the realized strategy detailing selected elements of a business

model ontology. Hence, developing a business model may benefit from a meaningful integration of strategic and business model planning (cf. Teece, 2010).

2.3 The business model as unit of analysis for innovation

2.3.1 Conceptual definition of business model innovation

The literature has considered the business model concept in the context of innovation in two different yet related ways (Zott, et al., 2011): either as a “vehicle” for other innovation types (cf. Chesbrough, 2010) or as a subject of innovation in its own right (cf. Teece, 2010). This chapter focuses on the business model as the subject of innovation as it provides an overview of conceptual definitions of business model innovation and demonstrates. As I will argue, business model innovation refers to a change in business model elements and architecture that affects both how the focal organization creates and appropriates value.

Given the heterogeneity of definitions for the business model (cf. chapter 2.1.2), it comes as no surprise that research on business models has not converged on a single coherent conceptualization for business model *innovation*. Scholarly publications that do define business model innovation – as opposed to publications that deal with the dynamic aspects of business models and do not (e.g., Johnson, et al., 2008; Voelpel, et al., 2004) – can be characterized along six criteria: degree of innovativeness, object of reference, intentionality, comprehensiveness, rhythm, and reference to value creation/capture. Table 15 details eight definitions of business model innovation that have been selected for their impact and comprehensiveness along these criteria.

Aspara and colleagues (2010) include two elements in their conceptualization of business model innovation: “to create novel value by challenging existing industry-specific business models, roles, and relations in certain geographic market areas” and “to provide entirely new value to certain people and/or organizations (customers)” (p. 47). These two elements constitute a two-dimensional questionnaire item that operationalizes a focal organization’s strategic emphasis on the business model in a study by Aspara and colleagues (2010). The focus of these authors’ study is on differences in the performance implications of an emphasis on either business model innovation or business model replication. Both elements refer to the creation of radically new value, albeit one for customers and the other in the process of value creation. However, the co-specialization of these elements is not considered.

Table 15: Definitions for business model innovation

Author (Year)	Degree of Innovativeness (radical vs. incremental)	Object of reference	Intentionality (planned vs. emergent)	Rhythm of change (continuous vs. episodic)	Value creation/ value capture	Comprehensiveness (elements vs. architecture)
Aspara et al. (2010)	Radical	n.s.	n.s.	n.s.	Value creation	Elements
Bucherer et al. (2012)	Both	Industry/ Market	Planned	n.s.	Both	Both
Casadesu-Masanell & Zhu (2013)	n.s.	n.s.	n.s.	n.s.	Both	Both
Demil & Lecocq (2010)	Both	n.s.	Both	Both	Both	Both
Gambardella & McGahan (2010)	Radical	n.s.	n.s.	n.s.	Value capture	Elements
Markides (2006)	Radical	Industry	n.s.	n.s.	Both	Elements
Mitchell & Coles (2003)	Radical	Competitors	n.s.	n.s.	Value creation	Elements
Zott & Amit (2012; 2007)	Both	n.s.	n.s.	n.s.	Both	Both

Note: "n.s." refers to items not specified. Source: Own representation.

Bucherer and colleagues' (2012) definition of business model innovation is more generic. The authors refer to business model innovation "as a process that deliberately changes the core elements of a firm and its business logic" (Bucherer, et al., 2012, p. 184) and "change[s] the rules of the game" (p. 183). Hence, this definition refers to a planned change in both the elements of the business model as well as its architecture. It seems reasonable to assume that Bucherer and colleagues (2012) used the same underlying business model definition (i.e., the nine elements by Osterwalder and Pigneur's (2009)) as Bucherer (2010) in her dissertation because both publications detail the same cases. With this definition and ontology in mind, Bucherer and colleagues' (2012) understanding of business model innovation refers to changes in both value creation and value capture. Finally, the cases the authors review involve both radical and incremental change to the business model with reference to either markets or the focal organization's industry.

Casadesus-Masanell and Zhu (2013) explain business model innovation as a contemporary equivalent of Schumpeter's (1934) fifth innovation type "new ways to organize business" (Casadesus-Masanell & Zhu, 2013, p. 464). The authors point to the system-wide reach of this innovation type as they detail the conceptualization: "business model innovation refers to the search for new logics of the firm and new ways to create and capture value for its stakeholders; it focuses primarily on finding new ways to generate revenues and define value propositions for customers, suppliers, and partners" (Casadesus-Masanell & Zhu, 2013, p. 464). This recent definition of business model innovation in a top-tier journal refers to the phenomenon as both a matter of value creation and value capture.

Demil and Lecocq (2010) apply a transformational perspective to business models "where the BM is considered as a concept or a tool to address change and focus on innovation" (p. 228). In line with their Penrosian business model conception, the authors perceive organizations to be in a state of permanent disequilibrium (Demil & Lecocq, 2010). This causes permanent change to business models that may be either episodic and radical or continuous and incremental in nature. Demil and Lecocq (2010) suggest that incremental and continuous changes to business models are more common. In addition, radical innovation emergently follows from the accumulation of several incremental business model adaptations. In that sense, business model innovation may evolve emergently from unintended small changes or from planned initiatives. Even though the authors refrain from explicitly referring to the notion of business model architecture, they refer to the systemic nature of the business model con-

struct and highlight that it is of importance to consider the mutual influence of changes in one business model element on the others (Demil & Lecocq, 2010). Finally, the elements that are subject to change in business model innovation pertain to value creation as well as value capture.

Gambardella and McGahan (2010) conceive business model innovation to be „a novel approach to commercializing its [i.e., the focal organization’s] underlying assets” (p. 263). This brief definition focuses on radical (i.e., novel) ways to capture value. In addition, the authors detail change in elements of the business model only (Gambardella & McGahan, 2010). There is no reference to the business model architecture.

For Markides (2006), a “Business-model innovation is the discovery of a fundamentally different business model in an existing business” (p. 20). From this perspective, a new business model only qualifies as an innovation if it increases an organization’s sales potential through additional sales to existing customers or access to new markets and customer segments (Markides, 2006). In addition, Markides (2006) emphasizes that organizations innovating a business model are not those that discover new products or services; they redefine the value proposition and the delivery of the value promise. Hence, the author judges the business model’s novelty in absolute terms, i.e. with reference to existing business model(s) in an organization’s respective market (Markides, 2006). In his view, only radically new business models qualify for business model innovations. In this publication, Markides (2006) associates business model innovation mainly with value creation. However, his underlying business model conceptualization includes aspects of value capture as well (cf. Markides, 2008).

Mitchell and Coles (2003) identify business model innovation by the number of elements that change in a given business model. When a focal organization replaces at least four elements of its business model to “provide products or service offerings to customers and end users that were not previously available, we refer to those replacements as business model innovation” (Mitchell & Coles, 2003, p. 17). With this definition, Mitchell and Coles (2003) address radical changes to the value creation whose novelty is judged with reference to the focal organization’s competition. Unlike the other definitions of Table 15, the authors are very specific about the number of elements that need to be replaced in order for a change initiative to qualify as business model innovation. Yet, there is no reference to business model architecture and the interaction effects that might appear when business model elements change.

Zott and Amit (2007) conceive business model innovation as a complement to other innovation types such as new “products and services, methods of production, distribution or marketing, and markets” (p. 184). In this sense, the authors (Zott & Amit, 2007) suggest, like Casadesus-Masanell and Zhu (2013), that business model innovation is equivalent to Schumpeter’s (1934) fifth innovation type. Zott and Amit (2007) maintain that business model innovations either create new value within existing markets or create novel markets. Even though the authors exclude the revenue model from their business model conceptualization (Amit & Zott, 2001), Zott and Amit’s (2007) understanding of business model innovation refers to both value creation and value capture. In particular, the authors are concerned with entrepreneurial rents resulting from business model innovation and mechanisms that affect the focal organization’s ability to appropriate these rents (Zott & Amit, 2007). Moreover, they include the complementary revenue model in their considerations to evaluate the prospects of business model innovation initiatives (Amit & Zott, 2012). The changes associated with business model innovation may be either incremental or radical. However, no matter how big or small the changes, the authors emphasize the importance of taking an integrated approach to innovation that considers not only the elements but also the systemic architecture of the innovated business model (Amit & Zott, 2012).

In conclusion, this review of definitions demonstrates the heterogeneity of conceptualizations for business model innovation. They vary in part with the authors’ understanding of the business model concept and, of course, in part with the respective publication’s purpose. Mostly, however, the variety of these mainly normative conceptualizations reveals a need for more empirical research on business model innovation. The conceptual definitions and especially the transfer of concepts from other types of innovations (cf. Subramanian & Nilakanta, 1996) need to be verified across different empirical studies and contexts to establish business model innovation as a distinct type of innovation.

Based on the above review, I subsequently elaborate the definition of business model innovation that informs this study. It is based on two assumptions: First, the conceptualization of business model innovation is open-ended (cf. Tsoukas, 2009); second, its conceptualization depends on the underlying definition of the business model. In addition, the definition details the object of reference to judge novelty, how value creation and capture are accounted for, as well as the relevance of business model elements and their co-specialization.

Business model innovation refers to a business model configuration that specifies new ways to create and capture value for the focal organization, its customers, and other stakeholders.

This definition builds on Casadesus-Masanell and Zhu's (2013) and Zott and Amit's (2007) emphasis on change in both value creation and appropriation. With reference to the value-based business model, a business model innovation requires the focal organization to change at least one element pertaining to value creation (i.e., value proposition, value creation, or value communication and transfer) and one element referring to value capture (i.e., value capture or value dissemination). Change within just one business model element is not classified as business model innovation (Henderson & Clark, 1990; Zollenkop, 2006). In addition, the systemic nature of the business model concept (Amit & Zott, 2012; Teece, 2010) implies that business model innovation refers to situations where the change in business model elements alters the element's interaction as captured by the business model architecture.

I deviate from some of the reviewed definitions with regard to the object of reference to judge a business model's innovativeness. Since the focus of this study lies on incumbent organization's innovation processes, the prime object of reference to judge a business model configuration's novelty is the incumbent business model of the focal organization and not the market or the industry. The logic for this relative conceptualization of novelty (cf. N. Anderson, et al., 2004) is twofold: On the one hand, absolute novelty, i.e. innovations that are "new to the world", are very rare and hard to justify as a criterion to judge innovations in general. Most innovations emerge from adopting, adapting, and recombining existing ideas (e.g., Abernathy & Clark, 1985; Van de Ven, 1986). On the other hand, absolute innovations rarely originate from established industry leaders due to a number of problems associated with incumbency (e.g., Leonard-Barton, 1992; Tripsas & Gavetti, 2000) and are likely to be introduced by new entrants that bring the new business model to the incumbents' attention (Casadesus-Masanell & Zhu, 2013; Chesbrough, 2010).

In sum, the business model is a meaningful perspective for matters of innovation because it allows researchers to appreciate the innovation of value creation and capture at a systemic level (Sosna, et al., 2010; Teece, 2010). From a practical and dynamic perspective, business model innovation matters for what it can teach us about the dynamics of competitive advantage and organizational success (Casadesus-Masanell & Ricart, 2010b; Teece, 2010).

The subsequent two chapters detail how business model innovation relates to other innovation types and provide an overview of major contributions on business model innovation in management and organization studies.

2.3.2 Relations with other types of innovations

In principle, new business models and business model change may build on other innovation types such as product innovation, process innovation or technological innovation (Demil & Lecocq, 2010; Teece, 2010). However, business model innovation also occurs independent of those innovation types (Bucherer, et al., 2012; Santos, Spector, & Van der Heyden, 2009). The subsequent paragraphs detail the relationship between business model innovation and five other innovation types with which it is frequently associated: product and process innovation, technological innovation, strategic innovation, and value innovation.

Conceptually, *product and process innovation* differ from business model innovation in that they relate to change within a single business model element without changes to the other elements or the over all business model architecture (Henderson & Clark, 1990; Zollenkop, 2006). Product innovation refers to change in the value proposition, and process innovation effectuates change in the value creation element of the value-based business model that allow exploiting the focal organizations underlying resources more efficiently (Demil & Lecocq, 2010). In a detailed, case-based discussion of business model and product innovation, Bucherer and colleagues (2012) highlight that business model innovation differs from product innovation in its reliance on top management support, in terms of the broader scale of organizational impact, and in the detailed innovation process steps. However, the authors also suggest that they resemble one another in terms of resistance to change, the role of innovation champions, the chaotic and non-linear innovation process, and potential conflicts between the old and the new (Bucherer, et al., 2012). In addition, Markides (2006) emphasizes that business model innovators are usually not those who invent new products or services but rather “redefine what an existing product or service is and how it is provided to the customer” (p. 20). Finally, Bock and colleagues (2012) concluded from an analysis of the 2006 IBM CEO Survey (cf. Pohle & Chapman, 2006) that prior success of business model change is not a reliable predictor for future business model innovation efforts, whereas learning effects do matter for product and process innovation.

Technological innovation has no commercial value unless it is made marketable in a business model (Chesbrough, 2010; Chesbrough & Rosenbloom, 2002). Teece (2010) thus highlights that the inventor needs to pay careful attention to business model design and implementation to capture the value from technological innovations. This does not only include selling technologies embedded in products or services but also hybrid and intellectual property licensing-based business models (Desyllas & Sako, 2013; Gambardella & McGahan, 2010; Teece, 2010). While new technology is an important trigger for new business models, it is neither strictly necessary to commercialize new technology by means of business model innovation nor do business model innovations solely rely on technological novelties (Chesbrough, 2007; Teece, 2010). Moreover, Markides (2006) points out that business model innovations differ from disruptive technological innovations with regard to their implications for incumbents. While technological innovations come to replace existing technologies in the market, according to Christensen and Raynor (2003), Markides (2006) suggests that business model innovation may “grow to a respectable size” (p. 21) but subsequently coexists with the old ways of competing instead of replacing them completely. Despite these differences, McGrath (2010) indicates that technology innovation and business model innovation do share some similarities with regard to the importance of experimentation and the establishment of new dominant designs (cf. Prahalad & Bettis, 1986).

Strategic innovation applies the concepts of innovation to the realm of (corporate) strategy (Schlegelmilch, Diamantopoulos, & Kreuz, 2003). While some authors (e.g., Markides, 2006) refer to business model innovation and strategic innovation as fundamentally the same, the conceptualization of business model innovation as well as the specified relationship of strategy and the business model imply a different, nested relationship (cf. chapter A2.2.3). In contrast to business model innovation, strategic innovation emphasizes the identification of new competitive positions that allow serving new or neglected customers and breaking out of existing competition and establishing a new market (Hamel, 1998a, 1998b; Markides, 1997; Schlegelmilch, et al., 2003). In this context, the business model details the contingent strategic choices of how to create and capture value in novel ways (Schlegelmilch, et al., 2003). However, the business model literature suggests that not all business model innovations are this radical nor driven by planned strategic processes (e.g., Bucherer, et al., 2012; Demil & Lecocq, 2010).

Finally, *value innovation*, is related to strategic innovation (Schlegelmilch, et al., 2003). The emphasis of this innovation type also lies on the identification of new competitive positions, but it focuses on how to provide new or superior value through the reconfiguration of products and services (Kim & Mauborgne, 1997, 1999) rather than conceptualizing the focal organization's entire business model. Thus, value innovation is more an approach to redefine the value proposition of a business model.

In conclusion, product and process innovation as well as value innovation each refer to novelty-oriented change within a single business model element. New or existing business models may serve as vehicles to commercialize new technologies. Finally, business model innovation represents a specification of strategic innovation though not every business model innovation need be as radical as the definition of strategic innovation implies.

2.3.3 Review of existing work on business model innovation

Research on business model innovation is still nascent (Lambert & Davidson, 2012). This chapter provides a structured overview of what we know about business model innovation at this point. The structure is provided by five central constructs that matter to the management of innovation (Van de Ven, 1986) across innovation types (Crossan & Apaydin, 2010; Van de Ven & Angle, 2000): ideas, people, transactions, context, and outcomes. The focus of the publications included is positively biased toward those that explain business model innovation of incumbent organizations.

2.3.3.1 Business model innovations as the development of new ideas

New *ideas* are the outcome of invention. However, innovation includes both the process to develop these new ideas, in our case new business model configurations, and their implementation (Van de Ven & Angle, 2000). Existing business model research suggests clues for the external and internal impetus of business model innovation, and the paths of new business model development as well as some mechanisms that might drive business model innovation.

External drivers of business model innovation and change are among the phenomena that have received most attention in the business model literature, which is logical given that these developments beyond the boundaries of existing firms, particularly the internet and associated information and communication technology, spurred the initial interest in the business model concept (e.g., Day, 2011; Hamel, 1998a; Teece, 2010). On an aggregate level, the literature identifies five external drivers of business model innovation and change: technology, customer needs/preferences, globalization/ liberal-

ization, regulation, and financial constraints. While all these drivers are out of the focal organization's control, some may take the form of external jolts disrupting industries unforeseen. However, others such as the arrival of new entrants or increasing cost of scarce natural resources may be anticipated (Demil & Lecocq, 2010).

First, a technology's value (cf. Chesbrough & Rosenbloom, 2002) for business model innovation derives from its contribution to the efficiency and effectiveness in creating value for customers and capturing value for the focal organization and its stakeholders. New technologies often allow satisfying customer needs in new or better ways (Teece, 2010). These technologies may either be very specialized with limited application or general-purpose technologies that serve as platforms for a range of new business models (Gambardella & McGahan, 2010). Johnson (2008) and Bower and Christensen (1995; Christensen & Bower, 1996) address the notion of disruptive technologies in business model innovation. Disruptive technologies wrapped in a new business model stress different performance attributes²⁸ than existing offerings, but they still perform at sufficient levels on traditional attributes, which may challenge incumbent business (Gilbert, 2003). And Day (2011), finally, points to technology's implications for value communication and transfer: New technology has increased the number of customer touch points as well as the channels to communicate with and transfer goods and services between the focal organization and its customer base.

Second, new business models are often based on "some 'deep truth' about the fundamental needs of customers" (Teece, 2010, p. 188) and how existing offerings are neglecting or insufficiently addressing those needs. This gap between customers needs and the value derived from existing offerings is subject to change with shifts in social norms and trends that alter customer preferences (McGrath, 2010). Anthony, Eyring, and Gibson (2006) suggest that a business model may harness insights about customers needs in three ways: first, by addressing an unmet need with a convenient value proposition; second, by developing acceptable value propositions for low-end customers at a low price point; or finally, by facilitating market access for customers previously excluded from consumption on a market. These insights are particularly valuable in the challenging environment of social enterprises and bottom-of-the pyramid markets (Casadesus-Masanell & Ricart, 2010b; Thompson & MacMillan, 2010; Yunus, et al., 2010).

²⁸ This does not imply that business model innovation shares all of disruptive technology's features as an innovation type (cf. Markides, 2006).

Third, the globalization of markets and value creation as well as the liberalization of trading regimes has been a driver of business model innovation (Teece, 2010). Yet innovation does not only take the form of multinationals entering emerging markets. Williamson (2010) maintains that large corporations from emerging markets are also taking over business from the triad's incumbents by means of a downward pressure on supplier pricing and labor rates. In addition, the realization of network effects across liberalized national markets has fostered the entry of new rivals competing on the basis of lean, low-cost business models (Casadesus-Masanell & Ricart, 2010b).

Fourth, and in addition to treaties and national law legislating international business, regulation generally determines the set of legally acceptable ways to create and capture value in new and existing industries (McGrath, 2010). Regulation's impetus for business model innovation and change may derive from both a deregulation and re-regulation.

Finally, financial constraints on both the demand and supply side of an economy may alter the importance of certain technologies, customer value dimensions as well as the viability of business models relying on those aspects (McGrath, 2010).

De Reuver and colleagues (2009) illustrate for the context of new technology start-ups that new business models are subject to multiple, simultaneous external drivers that vary in terms of their presence and influence on business model innovation and change.

Internal drivers of business model innovation and change include managerial "decision processes ... [as well as] the consequences of the dynamics within or between core components" (Demil & Lecocq, 2010, p. 236) of a business model. While business models research has a tendency to favor managerial action and strategic choice (Lecocq, et al., 2010), the internal drivers of business model innovation have received less attention than their perhaps more readily observable external counterparts (Aspara, et al.; Sosna, et al., 2010; Svejnova, et al., 2010).

First, business model innovation as the result of deliberate actions by visionary managers or entrepreneurs is acknowledged as one possible source of successful business model transformation (Demil & Lecocq, 2010). For example, Johnson (2010) and Johnson and colleagues (2008) provide a number of examples of companies that willfully innovated aspects of their business model including PROCTER & GAMBLE, TATA, and DOW CORNING. However, the complexity of business models as interdependent systems of elements may yield unanticipated effects as the result of purposeful mana-

gerial behavior (Demil & Lecocq, 2010). They include spillovers, value slippage, and vicious or virtuous circles (Casadesus-Masanell & Ricart, 2010b; Raff, 2000; Svejenova, et al., 2010). How managers potentially act as drivers and barriers in processes of business model innovation and change is discussed in a later section focusing on the role of people in business model innovation (cf. chapter A2.3.3.2).

Second, change in business models as a result of independent developments within single business model elements or resulting from interactions between business model elements has primarily been covered by Demil and Lecocq (2010). Table 16 summarizes exemplary developments within and between business model elements that may cause this type of business model evolution.

Table 16: Examples for dynamics within or between business model elements

Dynamics	Examples
Independent development within single business model element	<ul style="list-style-type: none"> Network externalities Accumulation of reputation Experience accumulated by employees Bureaucratization of structure Economies of scales related to products Synergies from complementary resources Increase in knowledge about the use of resources
Interactions between business model elements	Revenues extracted from the value proposition may enable the acquisition of further resources, which in turn allows modifying value creation

Source: Adapted from Demil and Lococq (2010, p. 238).

As a conclusion for both types of drivers of business model innovation and change, Rita McGrath (2010) notes that “while it is usually quite possible to detect such trends and changes, it is difficult to know in advance how best to take advantage of them via business model innovation” (p. 253).

The precise *path* the development of a new business model will take is difficult to predict because of the great number of unknowns at the outset of this type of innovation process (McGrath, 2010) as well as because of the occurrence of sudden shocks and process’ non-linear gestalt (Bucherer, et al., 2012). The trajectory of the development path of a new business model is likely path-dependent (McGrath, 2010; Teece, 2010) and determined by intentional decisions as well as emergent developments and un-/intended consequences (Demil & Lecocq, 2010).

To date, business model research has produced three normative and three empirically grounded models that aim to prescribe or explain the path of a business model innovation. They focus on different levels of analysis and aspects of business model

innovation: In the first normative model, McGrath (2010) suggests that the business model innovation process is ideally structured by a sequence of small experiments that facilitate learning about a business model's many unknowns and minimize the financial outlay for these experiments at the same time. Her discovery-driven approach focuses on trial-and-error learning at the level of the innovation project. In a second normative model, Bucherer (2010) proposes that the business model innovation process ideally follows four consecutive stages: analysis, design, implementation and control. The main drivers of this project-level development of a new business model are manager's teleological decision and planning processes. In the first empirical model, Cule and Robey (2004) present a three-stage transition model based on a single case study of an equipment manufacturer with customer service that changed to become a service provider supported by some equipment manufacturing. The authors suggest that the new business model follows the stages of creation, destruction and unification driven by the "purposive actions of knowledgeable actors" (Cule & Robey, 2004, p. 252) and conflict between the old and new model at the organizational level. The second empirical model is based on a longitudinal analysis of NATURHOUSE, a Spanish dietary products business, by Sosna and colleagues (2010). The authors' model is based on the entrepreneurial venture proceeds in four stages: an initial design and test of a business model, followed by business model development, scaling up, and finally growth through organizational learning (Sosna, et al., 2010). The process is driven by double and single-loop learning (cf. Argyris & Schon, 1978) as well as a trial-and-error learning logic. Sosna and colleagues' (2010) case description recently served a third normative model by Cavalcante and colleagues (2011) to illustrate their life-cycle-like typology of business model changes: creation, extension, revision, and termination. Finally, in the third empirical model, Svejenova and colleagues (Svejenova, et al., 2010) propose that business model innovation is also a viable perspective at the level of an individual actor. The authors suggest for the case of a Spanish chef that his quest for creative freedom and his creative response to available external opportunities and resources drove change in his (focal organization's) business model. The stages of business model development coincide with the individual's tenure and career progress.

While these models provide us with some clues about the path of business model innovation and a vocabulary for thinking about business model change, we still know relatively little about the mechanisms that drive both business model conceptualization and implementation as well as their interactions (Aspara, et al., 2011; Bucherer, et al., 2012; Cavalcante, et al., 2011; Chesbrough & Rosenbloom, 2002; Moingeon &

Lehmann-Ortega, 2010; Morris, et al., 2005; Svejenova, et al., 2010) – particularly for non-technology-driven business model innovations and incumbent organizations (Sosna, et al., 2010; Zott & Amit, 2007).

2.3.3.2 *People in business model innovation*

*People*²⁹ contribute their productive and creative energy as well their knowledge and mental models to the creation and implementation of new ideas (Van de Ven & Angle, 2000). The interpretive schemes and contributed energy levels result from people's "backgrounds, experiences, and activities that occupy their attention" (Van de Ven & Angle, 2000, p. 15). The body of business model literature deals with people as both drivers and barriers to business model innovation. Learning and other capabilities specific to business model innovation have been the main interest of publications dealing with people as drivers of innovation. The existing literature lists a lack of ownership as well as cognitive barriers as the relevant barriers to business model innovation.

Any innovation requires some form of *learning* by the people involved with the creation and implementation of the new idea. The design of a new business model requires insights about processes, technologies and actors involved in value creation and value capture (e.g., customers and suppliers) as well as creativity (Teece, 2010). A significant portion of the knowledge required may not exist yet or take a tacit form (cf. Nonaka & Takeuchi, 1995) and therefore require learning and experimentation on the part of the innovating project team (McGrath, 2010; Teece, 2010). In addition, the multiplicity of uncertain variables at the outset complicates business model innovation. They necessitate working with best guesses and learning as well as adjustments on both the value creation and capture side of a business model (Chesbrough, 2010; Teece, 2010). Thus, learning is not confined to the focal organization but may occur in interaction with value creation partners (McGrath, 2010).

The reasons for the high degree of uncertainty involved in business model innovation projects traces back to the fact that this type of innovation transcends or redefines existing market or industry boundaries, reshapes product recipes, and addresses latent needs and emerging trends (McGrath, 2010; Teece, 2010). Moreover, the interdependencies of design choices in business model elements as well as resulting virtuous or vicious circles are hard to fully anticipate at the outset of a business model innovation project (Casadesus-Masanell & Ricart, 2010b; Sosna, et al., 2010).

²⁹ In terms of terminology, people are preferred over individuals since most innovation projects are too complex to be handled by a single person (Van de Ven & Angle, 2000).

With reference to insights from the management of technological innovations (e.g., Bower & Christensen, 1995; Christensen & Bower, 1996), authors such as Rita McGrath (2010) and Henry Chesbrough (2010) suggest that the emergence of a new dominant business model design (cf. Prahalad & Bettis, 1986) requires a significant series of experiments, most of which will fail. However, these failures – unlike mistakes – provide valuable opportunities to learn and allow verifying the premises defined as well as informed guesses made at the outset of a business model innovation project (Chesbrough, 2010).

The most detailed and comprehensive study on the role of learning in business model innovation is Sosna and colleagues' (2010) NATURHOUSE case study of drivers and antecedents of the business model innovation process. The authors apply an organizational learning perspective and trace a business model innovation initiative at a Spanish company that was launched in response to market liberalization and a fiercer competitive environment (Sosna, et al., 2010). Sosna and colleagues (2010) emphasize different types of learning as the process unfolds, knowledge transfer between individuals and the organization, and the particular importance of trial-and-error learning for business model innovation. The authors identify two distinct learning phases in the business model innovation process (Sosna, et al., 2010): First, at the exploratory stage, an initial business model is designed and tested in small experiments in response to a critical incident in the company's environment. An entrepreneurial mind and the resilience necessary to cope with adversity and to keep the change initiative alive despite potential criticism and failure of early experiments are important at this stage. Double-loop learning allows change process leaders to fine-tune the initial business model and to develop a more comprehensive understanding of the systemic interrelationships of business model elements and the environment. Second, at the implementation stage, the refined initial business model is scaled up and the knowledge that has been acquired thus far is translated into organizational knowledge (Sosna, et al., 2010). The knowledge is implemented in terms of routine processes and systems. Further exploration is still needed to sustain organizational growth, however, changes made at this stage are rather the result of single-loop learning.

Several authors have suggested approaches to facilitate and systematize learning and experimentation, which have been highlighted as relevant in both normative and empirical contributions. Table 17 summarizes these approaches and their respective main authors.

Table 17: Approaches to experimentation and learning

Technique	Basic idea (Source)
<i>Business model maps</i>	"This modelling approach provides a pro-active way to actually experiment with alternative business models, by enabling firms to simulate various possibilities before committing to specific investments in reality. It also has the great virtue of explicitly visualizing the processes underlying a business model." (Chesbrough, 2010, p. 359)
<i>Theory-focused planning</i>	"A presumption of reliable predictability is not an appropriate premise for planning within strategic experiments. When the future is unknowable, the foremost planning objective must be learning, not accountability. [...] Learning follows from the diligent analysis of disparities between predictions and outcomes, with specific attention to the stories, models or theories upon which the predictions are based." (Govindarajan & Trimble, 2004, p. 70)
<i>Rule breaking</i>	"Breaking rules creates opportunities, but also increases the risks. The critical factor is an exact knowledge of the rules that shape one's own line of business and the various corporate functions. Only then can one, as systematically as possible, assess where there might be valid opportunities to deviate from these rules in a manner that adds greater success." (zu Knyphausen-Aufsess, Bickhoff, & Bieger, 2006, p. 370)
<i>Discovery-driven planning</i>	"The goal of a discovery-driven plan is therefore to learn as much as possible at the lowest possible cost, bringing us back to the theme of experimentation. Discovery-driven planning processes demand that business model assumptions are both articulated and tested." (McGrath, 2010, p. 258)
<i>Effectuation</i>	"Effectuation begins with a given set of causes, consisting of (mostly) unalterable characteristics and circumstances of the decision maker, and the focus is on choosing among alternative (desirable) effects that can be produced with the given set of means, thereby eliminating the assumption of preexistent goals." (Sarasvathy, 2001, p. 259) "There is a strong bias in effectuation for action over analysis, because there may be insufficient data available to analyze one's way towards a new business model: without action, no new data will be forthcoming." (Chesbrough, 2010, pp. 360-361)
<i>Template process</i>	"Simple combinations of high-level strategic questions can produce a wide range of potential business models. [...] The questions [...] represent a series of decisions, each of which has a set of possible outcomes. This template lays out various possible outcomes within the business model structure." (Sinfield, Calder, McConnell, & Colson, 2012, p. 87)
<i>Sense testing</i>	"A systemic sense-testing tool [...] helps managers to grasp the concept of adapting and creating business models for strategic inflection. This tool assists managers in discerning if the industry is ripe for dramatic change, and, if so, if it is plausible for the company to create or reinvent its business model. The four key dimensions [...] are: sensing the possibilities of new customer value proposition(s); sensing the impact and proper utilization of technology; sensing the configuration of industry value chains and/or business system infrastructure; and sensing the sustainability of the potential/ reinvented business model." (Voelpel, et al., 2005, p. 42)

Source: Own representation.

The *other capabilities* that previous publications have suggested as mattering for business model innovation and change can be organized around Teece's (2007) three capacities at the heart of the dynamic capabilities framework³⁰: sensing, seizing and managing threats, and transformation.

First, *sensing* refers to activities that enable a focal organization to identify, learn about, and interpret external and internal developments that pose threats to the existing business model or open up new opportunities (Demil & Lecocq, 2010; Teece, 2007). On the one hand, this requires exploration of new technologies, changing customer preferences and latent customer needs, and on the other hand, anticipating changes to

³⁰ For a discussion of contributions to and critique of the dynamic capabilities research refer to Barreto (2010).

the value network and industry caused, for example, by changes in trade regulation (Teece, 2007). Understanding the systemic nature and impact of such changes on the business model is an especially delicate matter and crucial capability (Demil & Lecocq, 2010). The capabilities to create and discover opportunities may reside both within individuals as well as groups and organizational processes (Teece, 2007). Teece (2007) maintains that especially sensemaking of information about opportunities and threats is a top management task. Doz and Kosonen (2010) also include this kind of capability in their agenda for business model renewal. The authors specify five leadership activities to sensitize managers to threats and opportunities to their existing business model (i.e., anticipating, experimenting, distancing, abstracting, reframing) (Doz & Kosonen, 2010).

Second, *seizing* refers to a focal organization's capacity to select and implement a business model that addresses changed circumstances and new opportunities (Teece, 2007). Besides the design of the new business model³¹, Teece (2007) highlights the importance of efforts to avoid, "bias, delusion, deception, and hubris" (p. 1333). To overcome these biases is highly challenging – both cognitively and in terms of the required level of decision-making discipline (cf. Cavalcante, et al., 2011) – but "(1) designing organizational structures, incentives, and routines, to catalyze and reward creative action; and (2) developing routines to enable the continual shedding of established assets and routines that no longer yield value" (Teece, 2007, p. 1333) appear to be promising pathways identified by prior studies.

While Teece (2007) acknowledges the delineation and implementation of a new business model as a vital foundation of dynamic capabilities, he remains vague on how to achieve this end. Other authors have started to fill in this gap and addressed the following issues: the management, transfer, and fluidity of resources (Danneels, 2011; Doz & Kosonen, 2010; Govindarajan & Trimble, 2005a), shaping mechanisms for value creation and capture (Svejenova, et al., 2010), learning and unlearning (Govindarajan & Trimble, 2005a; Sosna, et al., 2010), and the role of innovation champions (Bucherer, et al., 2012).

Finally, the *management of threats and transformation* alludes to activities aimed at managing a business model's internal consistency and its transformation to meet threats and the need for operational efficiency (Teece, 2007). Demil and Lecocq (2010) suggest that the management of a business model is a matter of dynamic con-

³¹ That includes decisions on firm boundaries, product ontologies and considerations of co-specialization and other value network aspects according to the definition used in this study.

sistency: adjusting the business model elements and architecture to meet changes within the model as well as in the focal organization's environment. The basis for these adaptations is a consequent monitoring of risk and uncertainties in the focal organization's environment as well as of internal drifts (Demil & Lecocq, 2010). Doz and Kosonen (2010) identify a set of managerial skills to enable far-reaching changes to achieve consistency. Under the term leadership unity (i.e., dialoguing, revealing, integrating, aligning, and caring) they summarize actions that enable the necessary "personal adjustment and collective commitments" (Doz & Kosonen, 2010, p. 371) to transform business models. While chief executive officers certainly are important for business model innovation (e.g., Govindarajan & Trimble, 2011), allocating responsibility for business model innovation efforts to a management position is not a straightforward task (Chesbrough, 2010): it requires a balance between necessary authority, time and incentives in terms of tenure, and fondness of as well as attachment to the prevalent business model.

Overall, the capabilities associated with sensing, seizing and managing threats and transformation are unlikely to reside within a single individual (Teece, 2007). Hence, they require collaboration on behalf of both management and project teams that oversee and develop business model innovation. This particularly applies to business models that try to harness paradoxical demands (W. K. Smith, et al., 2010; W. K. Smith & Lewis, 2011).

The first people-related barrier stems from a *lack of ownership* for business model innovation. Most organizations are not familiar with an institutional assigned responsibility³² that monitors and develops this innovation type (Chesbrough, 2010). The above considerations on the allocation of responsibility for business model innovation apply to this matter in reverse logic.

The second barrier derives from people's *cognitive abilities and willingness* reflected in the decision processes that determine the fate of business model innovation. The existing literature has identified three inabilities that hinder business model innovation: First, Johnson and colleagues (2008) maintain that few organizations comprehend their existing business model well enough, which is, however, a necessary precursor to purposive business model innovation and change. Second, Bucherer and colleagues (2012) argue that managers struggle to fully comprehend the threats and opportunities that new ways of creating and capturing value entail. Complacency might

³² To address this deficiency, Teece (2010), for example, suggests integrating strategic and business model planning processes.

inhibit the reception of discrepant signals (Day, 2011; McGrath, 2010). However, framing (as opportunity or threat) is essential to unlock rigidities in resources and routines (Gilbert, 2005; Szulanski, et al., 2004). Finally, Chesbrough (2010) points out that it is very difficult to identify what “the right new business model ought to be” (Chesbrough, 2010, p. 359).

Even if managers realize what new business model they might develop and implement, they may be unwilling to do so for a number of reasons. They may be unwilling to (a) cannibalize existing business (Teece, 2010), (b) upset business partners and other stakeholders (Johnson, et al., 2008; Teece, 2010), (c) redistribute, develop, abandon or acquire resources (Bucherer, et al., 2012; Danneels, 2011; McGrath, 2010; Tripsas & Gavetti, 2000; Zott & Amit, 2010), (d) accept shifts in power (Aspara, et al., 2012; Sosna, et al., 2010), (e) question routines (Gilbert, 2005; Teece, 2007), (f) target different customers (Markides, 2006; McGrath, 2010), (g) rethink their price points (Johnson, et al., 2008; McGrath, 2010), (h) challenge their identity (Bouchikhi & Kimberly, 2003; Teece, 2010; Tripsas, 2009), and (i) reveal the new business model configuration to potential rivals (Casadesus-Masanell & Zhu, 2013).

In sum, rigid mental models (Huber & Lewis, 2010) that represent the cognitive aspects of a business model (Aspara, et al., 2011; Tikkanen, et al., 2005) drive people toward favoring the existing, dominant logic of value creation and capture (Chesbrough, 2010). This cognitive aspect of business model management has yet to receive more systematic attention (e.g., Aspara, et al., 2012; Moingeon & Lehmann-Ortega, 2010; Sosna, et al., 2010; Tripsas & Gavetti, 2000).

2.3.3.3 Transactions in business model innovation

Transactions refer to the different relationships that the people engage in as part of their business model innovation efforts (Van de Ven & Angle, 2000). Among other dimensions, these relationships may take hierarchical or collegial forms and rely on formal contracts and artifacts or implicit agreements between individuals, groups or institutional entities (Van de Ven & Angle, 2000). The literature on business models has devoted very limited attention³³ to this aspect of innovation. Transactions may drive business model innovation either when they serve as source of new ideas that enter the innovation process or when they enable the realization of new business mod-

³³ In contrast, the role of transactions has been of great scholarly interest in defining the business model concept (cf. chapters A2.1 and A2.2).

el configurations. However, they may also hinder business model innovation, for example, by withdrawing project support or limiting access to resources.

The contribution of transactions to business model innovation and change has mainly been covered under the aspect of *open innovation*. One aspect of Henry Chesbrough's (e.g., 2003; 2007) work is the integration of new ideas into business models to benefit from a "division of innovation labor" (Chesbrough, 2006, p. 2). The integration of external innovation capabilities via co-development (Chesbrough & Schwartz, 2007) or external knowledge via innovation intermediaries (Chesbrough, 2006) may open up paths to business model innovation. On the basis of a crowdsourcing platform case study, Chanal and Caron-Fasan (2010) reason that the design of the incentive structure is particularly relevant to this type of open innovation.

In addition, transactions may also contribute to business model innovation by *enabling new business model configurations*. For example, Dahan and colleagues (2010) demonstrate how the cooperation between for-profit and non-profit organizations might enable the creation of new business models in developing countries.

However, transactions may handicap business model innovation when transaction partners either beyond or within the focal organization withhold or withdraw necessary resources on which the business model innovation effort relies (Casadesus-Masanell & Ricart, 2010b; Govindarajan & Trimble, 2005b; Johnson, et al., 2008).

2.3.3.4 Context in business model innovation

People develop new ideas in a *context*. The context refers to the intra-organizational and external institutional setting (e.g., market structures) in which people innovate and share ideas (Van de Ven & Angle, 2000). The internal context of business model innovation efforts has been of interest to business model research with regard to the level of organizational integration and separation between an existing and a new business model in established organizations. Authors disagree on the organizational setting that best supports business model innovation endeavors. In contrast, little attention has been devoted to the strategic context of business model innovation. Of course, the internal context may not only support but also impede innovation efforts. The external context's role as a driver of business model innovation has already been discussed in chapter 2.3.3.1. This chapter therefore focuses on the external context's role as a barrier to business model innovation. External shocks, competition, availability of industry assets and infrastructure, or legitimation issues may dampen innovation efforts.

Two types of *internal contexts* are particularly relevant to business model innovation: the strategic context and the organizational context. Strategic context maps out the scope of strategic behavior as defined top-down by corporate strategy (cf. Burgelman, 1983a; Burgelman, 1983c). The strategic context is relevant to business model innovation given that the business model concept shares a nested relationship with strategy (cf. chapter 2.2.3); yet, business model innovation efforts may develop both in- and outside of the existing strategic context (Demil & Lecocq, 2010). While business model literature has highlighted the role of management capabilities in (re-)shaping strategic context (e.g., Doz & Kosonen, 2010), there is no specific evidence on how strategic context might be devised to generally serve business model innovation. In contrast, strategic context as cognitive maps has been dealt with as a barrier to business model innovation (cf. chapter 2.3.3.2).

Organizational context (cf. Chandler, 1962; Lawrence & Lorsch, 1967) refers to the formal³⁴, structural arrangement in which a business model innovation effort is embedded. From an analysis of the 2006 IMB Global CEO Survey data (cf. IBM, 2006), Bock and colleagues (2012) conclude that “organizational design and structure are critical features of business model innovation” (Bock, et al., 2012, p. 299) because it delineates tradeoffs between freeing managerial attention to realize opportunities and maintaining control over critical operations. The most prominent solution to establishing a new business model initiative is an independent organizational unit (e.g., Bower & Christensen, 1995; Bucherer, et al., 2012; Govindarajan & Trimble, 2005a, 2011) (i.e., “the innovator’s solution”) (Christensen & Raynor, 2003). However, there is doubt that the setup of such an initiative can be considered a one-time decision minimizing dependencies (e.g., Westerman, et al., 2006). Hence, Markides and Charitou (2004) call for a contingent approach that tailors the organizational context to meet the level of conflict between the new and existing business model as well as their interdependencies. After all, investment logic dictates that an incumbent organization that chooses to innovate should be able to harness some kind of incumbent advantage over new entrants (Iansiti, et al., 2003). However, the organizational context impedes the development of a new business model within an existing organization when it incentivizes or motivates people’s unwillingness or inability to support and contribute to the

³⁴ Business model literature (implicitly) addresses the informal structure of organizations, whose essence is organizational culture (cf. Teece, 1996), under the aspect of cognitive aspects of decision processes (cf. chapter A2.3.3.2).

business model innovation effort (Chesbrough, 2010; Govindarajan & Trimble, 2005b; Markides, 2008).

The business model literature has a somewhat positive bias toward the *external context*. It primarily deals with the opportunities that change of technologies, customer needs, regulation, etc. present to potential business model innovators (cf. chapter 2.3.3.2). Business model innovation initiatives take a considerable amount of time (Chesbrough, 2010; Markides, 2008) and external shocks (e.g., severe economic crisis or unprecedented shift in industry regulation) may question the financial viability and underlying assumptions of such an endeavor. Competition may defer business model innovations as rivals secure access to key resources (e.g., by means of intellectual property rights or other exclusive contracts) (Teece, 2010), rapidly imitate and market business models in development (Casadesus-Masanell & Zhu, 2013), or disrupt the business model innovation in an even more radical way (Markides, 2006) – for example, by crossing industry barriers (Burgelman & Grove, 2007a). In addition, a new business model that reshapes existing rules of business and markets may find resistance from existing industry infrastructure (e.g., regulatory boards that govern industry standards) or struggle with the absence of industry assets (e.g., informed and educated customers) (Van de Ven, et al., 2008). Finally, the business model innovation may struggle to gain legitimacy with stakeholders in the focal organization's wider context (Post, et al., 2002; Zimmerman & Zeitz, 2002).

2.3.3.5 Outcomes in business model innovation

The *outcomes* of innovation processes are typically judged after the development and implementation of new ideas (Van de Ven & Angle, 2000). Van de Ven and Angle (2000) point out that this judgment is linked to a pro-innovation bias: We only refer to “successfully” implemented ideas as innovations; everything else is considered a mistake. On the positive side, the literature considers the positive impact of business model innovation on the focal organization and its stakeholders and the design of business models for a positive outcome of value creation and value capture. On the other side, the business model literature deals with the size and timing of outcomes of business model innovation as well as the selection of outcome measures as barriers to business model innovation.

In principle, any change to a business model element has the potential to increase or decrease the overall financial outcome of the focal organization's business model (Demil & Lecocq, 2010). However, business model innovation is associated with three

particular *positive outcomes* including Schumpeterian rents (Zott & Amit, 2007), competitive advantage (McGrath, 2010; Teece, 2007, 2010) and firm survival (Markides, 2006; Sosna, et al., 2010).

The literature offers some advice on how to design new business models for these kinds of outcomes. Amit and Zott (2001, 2012) suggest four design themes for business model innovation: novelty (i.e., harness new value creation and capture), lock-in (i.e., create switching costs for customers and incentive for co-producers of value), complementarities (i.e., profit from the value-added of interdependent offerings), and efficiency (i.e., saving cost through co-specialization of business model elements). Hence, if well designed, new business models may benefit from virtuous circles (Casadesus-Masanell & Ricart, 2010b, 2011; Govindarajan & Gupta, 2001). Chesbrough (2010) adds that “a mediocre technology pursued within a great business model may [even] be more valuable than a great technology exploited via a mediocre business model” (p. 355).

To what extent a new business model contributes to a relatively sustainable competitive advantage depends first on its reliance on resources and capabilities that are hard to imitate, and second, on the business model’s opacity (Teece, 2010). Opacity refers to how obvious a business model’s critical features and implementation are to an outside observer (Teece, 2010). While business models as such are generally not patentable to protect competitive advantage, some of the crucial underlying business methods might qualify for patent protection – at least in the United States (Desyllas & Sako, 2013).

In the long term, business model innovation may prove beneficial for incumbent organizations (Casadesus-Masanell & Zhu, 2013; Markides, 2006) – even though there are situations in which it makes perfect sense not to embrace it (Markides & Oyon, 2010). This is not to say that every business model innovation completely transforms or renews an existing organization. Rather, organizations may also be conceived as business model portfolios (Aspara, et al., 2011, 2012; Sabatier, et al., 2010).

Finally, new business models not only generate value for the focal organization but also intentionally and unintentionally for a wider group of stakeholders through mechanisms such as value spill and slippage (Svejenova, et al., 2010). For example, Casadesus-Masanell and Ricart (2010a) argue that business model innovation may benefit the competitiveness and prosperity of entire geographic regions.

In the business model literature, outcomes may act as *barriers* to business model innovation for three reasons: size of outcomes, timing, and the selection of outcome measures. First, the initial financial contribution of the new business model is likely to be considerably lower than that of the existing business (Chesbrough, 2010). Hence, a manager's wish to allocate resources to the most profitable use may choke off early business model innovation proposals as well as implementation efforts (Chesbrough, 2010).

Second, the decision processes of organizations are generally not designed to tolerate discovery-driven planning, which learns about outcomes on the go and accepts temporary dips in total value created (Chesbrough, 2010; McGrath, 2010). Instead, organizational budgeting and planning processes rely on forecasting and strict outcome monitoring, which find the uncertainty of business model innovation and time to break even harder to tolerate (Chesbrough, 2007).

Finally, Johnson and colleagues (2008) and Govindarajan and Trimble (2005a, 2005b) point out that the existing rules, metrics and norms that define tolerable returns on investment, gross margins, etc. may well suffocate business model innovation initiatives. Govindarajan and Trimble (2005a) thus suggest that the new business model needs a "dashboard" of its own.

As a summary point, Aspara and colleagues (2010) conclude from a survey of 545 Finnish firms that a sole emphasis on business model innovation may not benefit organizations as much as a combination of business model innovation and replication. Despite the methodological concerns that the authors highlight themselves (Aspara, et al., 2010), their findings make the important point that business model innovation is not always the preferable option and associated with the most positive outcome.

2.4 Conceptualizations of innovation and change process

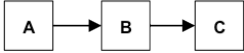
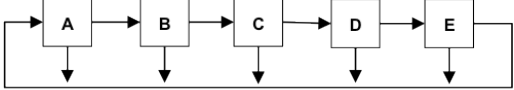
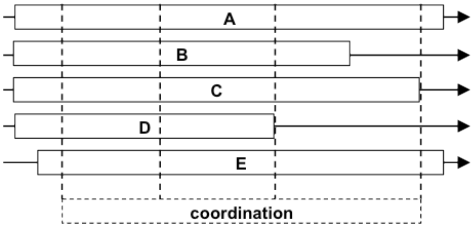
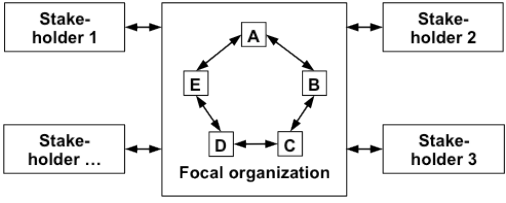
2.4.1 Purpose, overview and definition

Organizational actors that engage in or manage innovation have to deal with the phenomenon's uncertainty, complexity, and messiness (Pavitt, 2006; Van de Ven, et al., 2008). The path from an original idea to an implemented innovation is frequently "iterative, non-linear [...] disjunctive, cyclical, and stressful to those involved" (N. Anderson, et al., 2004, p. 152). In this context, process models serve these actors as mental models (cf. Huber & Lewis, 2010) to structure and comprehend the innovation process as well as to develop a shared understanding and to decide upon their actions (Tidd & Bessant, 2009).

The conceptualization of process models for innovation faces a tradeoff between simplicity and adequacy of representation (Tidd, 2006; Tidd & Bessant, 2009): On the one hand, overly simplistic models may mistakenly focus the management of innovation on limited aspects; on the other hand, excessively realistic representations may not provide enough structure and guidance to cognitively navigate the messy innovation process and fail to separate relevant management issues from the noise of implementation struggles.

Scholars have developed a number of process models for product innovation, technological innovation, and innovation endeavors in general. Rothwell (1992) and Tidd (2006) organize the progress of these models in generations, and Read (2000) in terms of their openness and linearity (cf. Table 18). While many authors agree that there is some simple, logical sequence to the basic process, these models have become more complex and incorporated more interactions between stages and activities over time (Pavitt, 2006; Tidd & Bessant, 2009; Van de Ven, et al., 2008).

Table 18: Development of innovation process models

Generation	Description	
1 + 2	<i>Linear sequence</i> Over-simplified, sequential model, driven by either technology push or need pull	
3	<i>Coupling / stage model</i> Extend linear models by including feedback loops and interaction between stages	
4	<i>Integrated model</i> Emphasizing the parallel activities at different stages, integrating functions; some integration of suppliers/customers	
5	<i>System integration and networking</i> Integration of internal and external collaboration, continuous and flexible innovation.	

Note: Letters A through E denote generic stages/functions in the innovation process.
Source: Adapted from Read (2000), Rothwell (1992, 1994), and Tidd (2006).

Representing an important milestone and key driver towards more complex innovation models were the Minnesota Studies on the management of innovation (Tidd & Bessant, 2009; Van de Ven, et al., 2000). Much of what we know about innovation

processes derives from Van de Ven and colleagues' (Van de Ven & Angle, 2000) analysis of fourteen longitudinal innovation process studies for different types of innovations at multiple levels and across different organizational settings.

The subsequent section reviews the six existing process models to describe business model innovation with regard to their contribution to the management of a process of business model innovation. In addition, the process model that resulted from the Minnesota Studies is discussed. It serves the case study analysis in chapter B5 as a point of reference because it was (a) conceptualized to apply to innovation processes in general (Van de Ven, et al., 2008) and (b) provides the definition of an innovation process that informs this study (Poole, et al., 2000, p. 100):

“The process of innovation was defined as the development of new *ideas* by *people* who engage in *transactions* (or relationships) with others within a changing environmental *context* and who change their behaviors based on the *outcomes* of their actions.”

The review in this chapter concludes that the existing models provide important hints for project management. Nonetheless, there is a need to analyze the specific structure of business model innovation processes in real-life, longitudinal cases in order to theorize this very process in terms of its underlying drivers and identify its unique characteristics (cf. Sosna, et al., 2010).

2.4.2 Review of process models for business model innovation

Table 19 summarizes the six existing process models for the business model innovation process and highlights the underlying drivers, process steps, and the empirical basis.

Table 19: Process models for business model innovation

Author	Empirical basis	Driving mechanism	Description
Cule & Robey (2004)	1 longitudinal case study (organizational level)	Top management decision process; Conflict between new BM and old structure as well as employee behavior.	The case company undergoes a BM transformation from manufacturing to service provider (1990 to 1997) across three stages: creation (i.e., top management develops new structure and BM), destruction (i.e., lay-offs, new CEO, new structure and incentive systems), and unification (i.e., rollout of new model across organization).


```

    graph LR
      A[Pressure to change] --> B[CREATION]
      B --> C[Conflict and confusion]
      C --> D[DESTRUCTION]
      D --> E[Emergence]
      E --> F[UNIFICATION]
      F -.-> G[Flux]
    
```

(Table continued on next page)

<p>Bucherer (2010)</p>	<p>Normative model based on other innovation models (organizational level)</p>	<p>Life-cycle of BM.</p>	<p>The model is based on a review of process models and proceeds in four stages: analysis (i.e., assessment of present BM as well as threats/opportunities), design (i.e., devise and evaluate BMI scenarios), implementation (i.e., realize new BM), and control (i.e., monitor new BM and initiate new life cycle if necessary).</p>
<pre> graph LR subgraph BM_LCM [Business model life-cycle management] direction LR ANALYSIS[ANALYSIS] --> G1{Gate 1} G1 --> DESIGN[DESIGN] DESIGN --> G2{Gate 2} G2 --> IMPLEMENTATION[IMPLEMENTATION] IMPLEMENTATION --> G3{Gate 3} G3 --> CONTROL[CONTROL] CONTROL --> G4{Gate 4} G4 --> ANALYSIS end </pre>			
<p>McGrath (2010)</p>	<p>Normative model (organizational level)</p>	<p>Learning (trial-and-error).</p>	<p>The model is based on the premise to maximize learning while minimizing the cost of innovation projects under uncertainty. After the formulation of the initial idea, the model works backward, defining success, necessary revenues, metrics and assumptions before designing experiments and evaluating them. Granted the assumptions have been met, the innovation is then scaled up.</p>
<pre> graph LR A[Come up with idea] --> B[Define Success] B --> C[Create 'reverse' income statement] C --> D[Define process metrics and assumptions] D --> E[Test with experiment] E --> F[(Re-)evaluate] F --> G[Scale-up] F --> D G --> B </pre>			
<p>Sosna et al. (2010)</p>	<p>1 longitudinal case study (organizational level)</p>	<p>Learning (single-/double-loop; trial-and-error).</p>	<p>The case company develops, grows and franchises a captive retailer business model in the dietary products business (1986 to 2007 across two phases each consisting of two stages: design and test of initial concept (i.e., first BM conception in response to external triggers), develop (i.e., development of initial concept to profitability), scale up (i.e., expand and multiply refined BM), and grow and learn (i.e., further growth and continuous adjustment to the BM).</p>
<pre> graph LR A[DESIGN + TEST (1st Concept)] --> B[DEVELOP] B --> C[SCALE UP] C --> D[GROW + LEARN] </pre>			
<p>Svejenova et al. (2010)</p>	<p>1 longitudinal case study (individual level)</p>	<p>Creative response to opportunities and resources based on individual motivation and interests; Value captured.</p>	<p>An individual entrepreneur (i.e., a chef) develops his personal business model across four periods (1983 to 2008). The process model explains changes between periods by two mechanisms on an aggregate level: (a) the creative response to opportunities and available resources based on individual motivation/interest, and (b) change caused by increased value captured.</p>
<pre> graph LR TRIGGER[TRIGGER Individual's motivation and interests] -.-> creative response CHANGES[CHANGES in business model] CHANGES --> Value mechanism VALUE[VALUE CAPTURED] VALUE -.-> Business model adjustment CHANGES VALUE -.-> Trigger modification TRIGGER </pre>			

(Table continued on next page)

Cavalcante et al. (2011)	Normative model (organizational level)	Implicit: life cycle of BM	The model depicts changes to business models in a life-cycle like fashion that follows four steps: creation (i.e., realization of an initial business idea), extension (i.e., quantitative growth and extension of the business model to exploit and explore), revision (i.e., remove parts of the BM and replace them with others to extend life expectancy), and termination (i.e., abandon BM)
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Source: Own representation.

The models developed by Cule & Robey (2004), Sosna and colleagues (2010), and Svejenova and colleagues (2010) are each based on the analysis of a single longitudinal case study. In contrast, Bucherer (2010), McGrath (2010), and Cavalcante and colleagues (2011) present normative models – without explicit *empirical basis*. Bucherer's model (2010) is based on a comparison of existing models from innovation management and has been evaluated with managers of seven companies interested in business model innovation. McGrath's model (2010) is based on the discovery-driven planning approach that she developed together with Ian MacMillan based on real-option reasoning (McGrath & MacMillan, 1995). Finally, Cavalcante and colleagues's model (2011) implicitly draw on a life-cycle concept of business model change and renewal to conceptualize four types of business model change.

The conceptualizations of these models bear resemblance to the third generation of innovation models as described in chapter A2.4.1: They include related *sequences of stages* that are in part iterative and connected via feedback loops. While Cule and Robey's model (2004) only applies to organizational transformations, Bucherer (2010), McGrath (2010), Sosna and colleagues (2010), and Cavalcante and colleagues (2011) have conceived their models to apply to both the organizational level as well as the level of a single project initiative. Svejenova and colleagues' model (2010) specifically focuses on the level of an individual entrepreneur as well as the explanatory mechanisms that drive the business model development. For their case analysis, the stages of business model development are of secondary importance (Svejenova, et al., 2010).

Learning features as the most prominent *mechanism* explaining the progression of the business model innovation process. Experimentation and trial-and-error learning feature prominently in Sosna and colleagues' (2010) as well as McGrath's (2010) process models. In addition, learning is also an important element of the teleological decision process (Van de Ven & Poole, 1995) included in Cule and Robey's process model (2004). The life-cycle mechanism is featured explicitly in Bucher's and implicitly in Cavalcante and colleagues' (2011) process model. In line with Hamel's (2000) and Chesbrough's (2007) notion that "no great business model lasts forever" (p. 15), Bucher (2010) and Cavalcante and colleagues (2011) suggest an immanent or externally opposed control of the business model innovation process (Poole & Van de Ven, 2004). In contrast, the remaining three mechanisms are only included once: (a) the dialectic conflict between the existing structures and the new business model (Cule & Robey, 2004), (b) the creative response to external opportunities and resources based on the entrepreneurs underlying motivation (Svejenova, et al., 2010), and (c) the value captured by the existing business model leading to resource accumulation (Svejenova, et al., 2010).

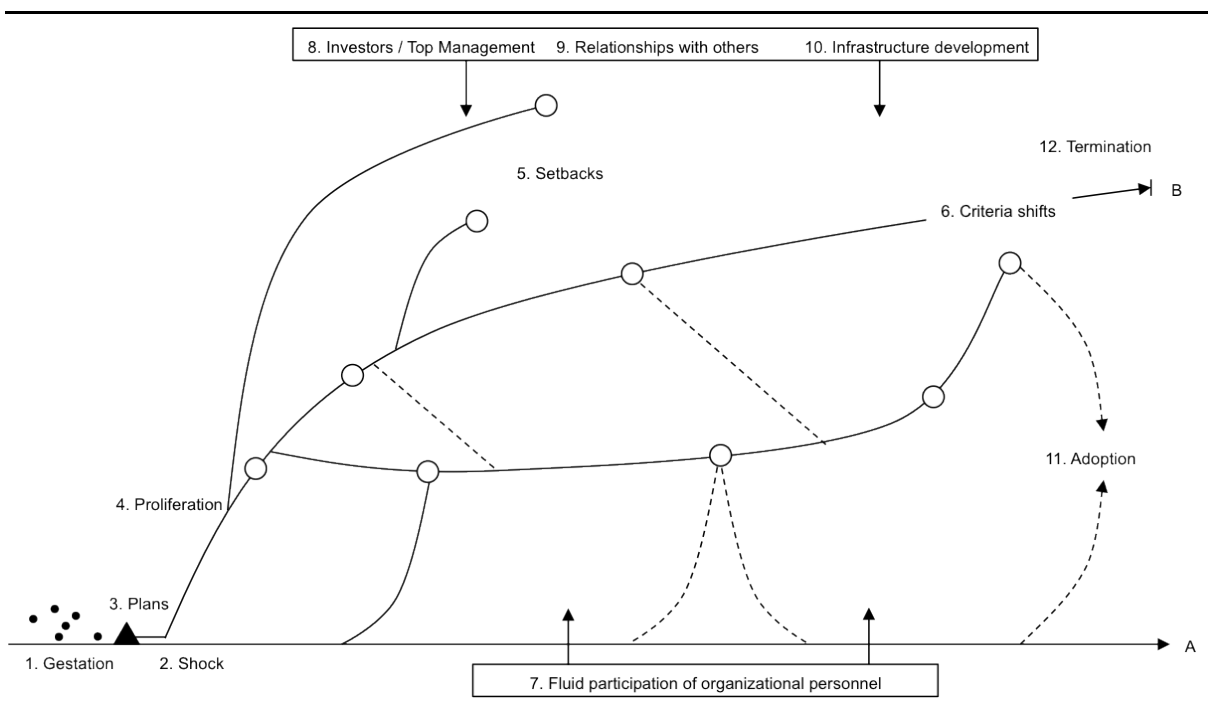
In conclusion, most existing models of the business model innovation process rely on a single explanatory mechanism. In line with a realist perspective, there are, however, likely to be several mechanisms operating simultaneously at different levels especially in incumbent contexts (Pajunen, 2008). While learning is particularly relevant to innovation, models relying exclusively on learning explanations face the limitations of partial process models (Tidd & Bessant, 2009). The existing models that do include two mechanisms to explain business model change are limited in their unit of analysis. Arguably, the reason for this limitation stems from the choice of cases. The fact that those models are based on a single case study is most likely connected to the laborious nature of longitudinal process studies (Langley, 2009; Poole, et al., 2000). Thus, overall, there is a need to analyze the process of business model innovation longitudinally in a real-life setting to craft a process model that identifies how different mechanisms interact to produce this type of innovation (Cavalcante, et al., 2011; Sosna, et al., 2010).

2.4.3 The Minnesota Model

The Minnesota process model represents the gist of fourteen longitudinal process studies of different innovation types investigating in different institutional contexts and at different levels of analysis (Van de Ven & Angle, 2000). The Minnesota Studies represent the largest set of longitudinal innovation process studies applying a common

framework of core constructs (i.e., people, ideas, transactions, outcomes, and context). The common framework enabled researchers to draw conclusions across innovation types (Van de Ven, et al., 2008), resulting in a process model that is depicted in Figure 14. If business model innovation shares relevant characteristics with the technological, organizational, and administrative innovations that the Minnesota Model is based on (Van de Ven & Angle, 2000), this general process model ought to apply to changes in value creation and value capture. Note that this model is descriptive. The aggregation of common elements of innovation processes does not entail explanations in terms of driving mechanisms.

Figure 14: The Minnesota Model



Source: Van de Ven, Polley, Garoud, and Venkataraman (2008, p. 25).

Van de Ven and colleagues (2008) divide the progression of innovation initiatives into three periods: initiation, development, and implementation. The subsequent description of these periods is based on the final report of the Minnesota Studies (Van de Ven, et al., 2008):

The *initiation period* starts with (1.) gestation, in which seemingly unrelated events over an extended period of time precluded what is to become the innovation initiative. Most often, innovations are not the brainchild of a single inventor with a brilliant idea at a precisely defined moment in time. (2.) Shocks within or external to the focal organization motivate actors to focus their innovation efforts. For business model

innovation efforts, Markides (2008) suggests that shocks are necessary to overcome inertia. Subsequently, the innovation initiative requires the support of resource controllers to start developing. (3.) Plans serve as “sales vehicles” (Van de Ven, et al., 2008, p. 23) to negotiate project support but projections are often very uncertain. The business model literature is aware of the problems involved in planning for business model innovation and has thus suggested alternative planning models (e.g., McGrath, 2010).

The *development period* starts when people start developing the innovation project. The initial idea (4.) proliferates “into numerous ideas and activities that proceed in divergent, parallel, and convergent paths of development” (Van de Ven, et al., 2008, p. 23). If controlled, rational planning approaches to business model innovation would welcome the proliferation of ideas early in the process (e.g., Bucherer, 2010). However, the innovation process is not as well behaved and is fraught with (5.) setbacks that result from events beyond the control of the innovation team and alter the project’s underlying assumptions. Problems arise from discrepancies between the development of the innovation project and resource requirements as well as anticipated outcomes – especially after the end of an initial “grace period” (Van de Ven, et al., 2008, p. 24). What makes this matter even worse is a (6.) shift of the criteria that resource controllers and project members use to assess the innovation effort. Johnson and colleagues (2008) and Govindarajan and Trimble (2005a) covered the impeding effects of key metrics used in incumbent organizations on business model innovation endeavors and how the innovating unit needs a different set of criteria. (7.) The people involved in the innovation endeavor and their contributed energy levels change over time. Innovation team members and managers have multiple responsibilities or they are drawn to different projects. Chesbrough (2010) alluded to this problem of tenure and the assignment of responsibility for business model innovation in incumbent contexts. (8.) Resource controllers and top management frequently influence the path innovation development taking on different roles. Van de Ven and colleagues (2008) stress the fact that all their cases required resource controller or top management intervention to resolve significant problems in the innovation process. While the business model literature is specific on the requirement for top management endorsement of business model innovation initiatives (e.g., Chesbrough, 2010; Govindarajan & Trimble, 2005a), there has been no systematic attention to the types of management interventions in such initiatives. Aside from the internal development and network, the innovation team is required to establish (9.) relationships with external actors. Van de Ven and colleagues (2008) maintain that these relationships may “lock innovation units into specific

courses of action that often result in unintended consequences” (p. 24). In addition, the development and implementation of new ideas often requires the joint (10.) development of infrastructures with private and public actors or institutions.

The final period of the innovation process is *implementation or termination*. (11.) The adoption and implementation of the innovation is not just the final state of the innovation process; it happens throughout the developmental period as the “new” and the “old” are linked and integrated. The Minnesota Studies concluded from their set of studies that the “new” and the “old” most often integrate or overlap rather than that the “new” completely transforming or replacing the “old” (Schroeder, Van de Ven, Scudder, & Polley, 2000). The relationship of an existing and a new business model is still an area of open debate (cf. chapter A2.2.2.4). Finally, the innovation process is (12.) terminated when resources are depleted or withdrawn from the project based on resource controllers’ or top management’s assessment of the project’s success or failure. This attribution does “significantly influence the fate of innovation and the careers of innovation participants” (Van de Ven, et al., 2008, p. 24).

Overall, the Minnesota model of the innovation process suggests a more realistic picture of an innovation path that deviates from simple linear sequence or stage models. While this picture increases awareness of the difficulties involved in the management, it is less specific in its advice on “exactly what to do and how an innovation will turn out” (Van de Ven, et al., 2008). A process model that combines the event-based more realistic picture of the innovation process with underlying generative mechanisms that explain the progress of the innovation endeavor has the potential to advance our understanding of business model innovation and the management of key processes in navigating “the uncharted river” (Van de Ven, et al., 2008, p. viii) that is innovation.

2.5 Generative mechanisms

2.5.1 Definition and relevance of generative mechanisms

Chapter A1.4.1 introduced generative mechanisms as a distinctive feature of realist research. This section details the definition of these mechanisms and their relevance to the study of business model innovation process.

The parallel use of mechanism-based explanations in different scientific disciplines has resulted in an abundance of definitions delineating generative mechanisms (Hedström & Ylikoski, 2010). The study presented in this dissertation assumes a defi-

inition of generative mechanisms that organization scholars have deemed useful for management and organization studies (Pajunen, 2008; Tsoukas, 2009):

“*Mechanisms* consist of entities (with their properties) and the activities that these entities engage in, either by themselves or in concert with other entities. These activities bring about change, and the type of change brought about depends on the properties of the entities and how the entities are organized spatially and temporally.” (Hedström, 2005, emphasis added)

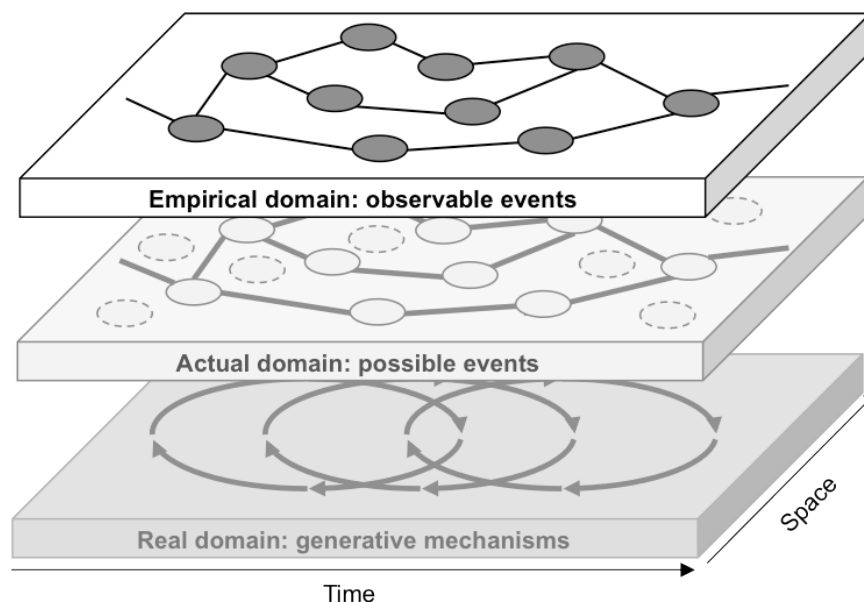
Entities and activities form the central elements of this definition. Entities are “the objects in the mechanisms” (Pajunen, 2008, p. 1451). *Entities* are individuals (e.g., manager, entrepreneur or firm owner) or collective actors (e.g., entire organizations or institutions) that may activate – either as a loose combination or in tight coordination – mechanisms that in turn produce certain outcomes. The activation results from entities’ *activities* – i.e., from “what these entities do” (Pajunen, 2008, p. 1452) – and varies with their relative size, force and other characteristics. Together, the temporal and spatial order of entities as well as related activities provide the explanatory key to innovation and change in processual research designs (Pajunen, 2008; Van de Ven, 1992; Van de Ven & Poole, 2005). This order is captured as a sequence of events that mark the path of an empirical case under study through space (Abbott, 1990, 1995).

The relevance of mechanism-based explanations to process research stems from the central role they take in realist epistemology. Realist perspective informs much of the process research and comparative historical analysis (Miller & Tsang, 2011; Pajunen, 2005; Poole, et al., 2000). This epistemological perspective holds that social phenomena are linked by causal relationships and that causal explanations are the central form of social explanation (Pajunen, 2005). Therefore, realist research centers on identifying causal mechanisms that produce outcomes of interest as the result of psychological, physical or social processes.

Unfortunately, generative mechanisms are not directly accessible to the researcher. Generative mechanisms reside in another stratum (cf. Figure 15), termed the *real domain*, which exists independently of a researcher’s knowledge of it (Miller & Tsang, 2011). The working of the mechanisms materializes in the form of directly or indirectly observable events in the *empirical domain* (Miller & Tsang, 2011). Event observations allow framing social phenomena in models of the underlying mechanisms derived from the process’ “micro-foundations” – i.e., entities and their activities (Pajunen, 2008). However, Miller and Tsang (2011) point out that not all potentially possible events belonging to the *actual domain* – located in between the real and em-

pirical domain – materialize. Instead, materialized events are the result of all mechanisms operating at a given point in time.

Figure 15: Layered view of reality



Note: Ovals denote realized events; ovals in dotted lines represent possible but not realized events.
Source: Own representation based on Bhaskar's (2008) stratified view of reality.

Note that the notion of micro-foundations as well as the realist focus on entities and activities to identify generative mechanisms is not premised on radical individualism or reductionism (Pajunen, 2008): Neither individual action alone nor in additive aggregation exhaustively explains the outcome of every possible process. In contrast, mechanisms operate at different levels and in different directions (Miller & Tsang, 2011): downward, upward or lateral. Pajunen (2008) therefore suggests conceiving organizational mechanisms as a part-whole relationship with at least two levels: The higher-level mechanism is essential to understanding the relevance of entities and activities on the level below; at the same time, the lower-level entities and activities are key to appreciating the higher level mechanism operating in context.

Van de Ven and Poole take this idea even a step further when they suggest conceptualizing multi-mechanism models to explain phenomena of organizational innovation and change (Poole, 2004; Van de Ven & Poole, 1995). Based a comparative analysis of fourteen longitudinal innovation process studies for different innovation types (i.e., the Minnesota Studies, cf. chapter A2.4.3), the authors suggest four basic generative mechanisms (“motors”) to serve as building blocks for process theory development (Van de Ven & Poole, 1995): *life-cycle mechanisms* (based on an immanent predeter-

minism), *teleological mechanisms* (based on purposeful enactment), *dialectic mechanism* (based on confrontation of opposing positions and resolution in synthesis), and *evolutionary mechanisms* (based on a pattern of variation, selection, and retention). While these mechanisms have successfully stimulated process theorizing (e.g., Cule & Robey, 2004), other authors have pointed out that they should not be taken as an a priori finite source of process explanations (Langley, 2009; Sminia, 2009). For example, Langley (2009) points out that other theoretical frameworks such as structuration theory (Giddens, 1984), actor-network theory (Denis, Langley, & Rouleau, 2007), sense-making theory (Weick, 1995; Weick, et al., 2005) or complexity theory (Brown & Eisenhardt, 1997; Houchin & MacLean, 2005) might also inform generative mechanism explanations.

Poole and Van de Ven (Poole, 2004) argue that any single generative mechanism is likely to fall short of explaining an innovation process because the process unfolds both within as well as outside of the innovating unit – across time and space. In effect, different combinations of generative mechanisms are required for an adequate explanation (Poole & Van de Ven, 2004): e.g., different mechanisms may influence geographically disparate parts of an organization at the same time, different mechanisms may vary in the degree to which they influence an innovation process over time, or they may simultaneously impact an organization at different levels.

A composite process model that incorporates multiple generative mechanisms needs to be *versatile* and cover three key aspects (Poole & Van de Ven, 2004): first, mechanisms' inter-level or spatial relationships, second, the nature and degree of mechanisms' mutual influence, and finally, the time scale at which mechanisms operate (cf. Table 20). Versatility³⁵ refers to the process model's ability to explain a broad domain of developmental patterns without requiring modification (Poole, et al., 2000). According to Poole and colleagues (2000), the versatility of a mechanism-based explanation depends on two criteria: first, the degree to which the model allows identifying “family resemblance” among sequences of events beyond case idiosyncrasies; and second, the degree to which the model enables researchers to identify generative mechanisms across a broad range of cases. These criteria inform the conception of process model configurations for the business model innovation process in chapter B6.1.

³⁵ Versatility is the central criterion to judge the value of a causal mechanism and the related process theory independently of the building blocks or the number of levels considered (Pajunen, 2005).

Table 20: Three key aspects in building a process model

Relationships	Descriptions
<i>Relationships at different levels</i>	
1. nested mechanism	<ul style="list-style-type: none"> ▪ a lower-order mechanism is closely linked with a higher-order mechanism ▪ the higher level mechanism serves a function at the lower level ▪ the lower-level, nested mechanism helps to drive the higher level mechanism
2. entangled mechanism	<ul style="list-style-type: none"> ▪ a lower-level and higher-level mechanism influence each other but are not tightly linked ▪ the mechanisms are not synchronized and operate independently of each other
3. aggregated mechanism	<ul style="list-style-type: none"> ▪ lower-level mechanisms constitute a higher-level process by aggregation (entangled and nested mechanisms do not question how the different leveled mechanisms come into being) ▪ the higher-level mechanism is strongly dependent on the lower-level mechanism
<i>Forms of relationships</i>	
1. direct relationships	<ul style="list-style-type: none"> ▪ positive relationship (linear, reinforcing) ▪ negative relationship (linear, dampening) ▪ complex relationship (non-linear)
2. indirect relationships	<ul style="list-style-type: none"> ▪ mediated relationship: mechanisms are linked by another process (e.g., because they operate in the same context such as economic crisis) ▪ entrained relationship: mechanisms operate independently but are coordinated due to an external, pacing factor (e.g., calendar for organizations) ▪ cyclical relationship: mechanisms alternate in their impact on the change process
<i>Temporal relationships</i>	
1. temporal velocity	<ul style="list-style-type: none"> ▪ how quickly the change process progresses
2. duration	<ul style="list-style-type: none"> ▪ how long a process takes (controlling for velocity)
3. acceleration	<ul style="list-style-type: none"> ▪ whether and to what degree the temporal velocity changes
4. temporal orientation	<ul style="list-style-type: none"> ▪ the degree to which past, present, and/or future influence the change process

Source: Adapted from Poole and Van de Ven (2004, pp. 384-390).

2.5.2 Generic generative mechanisms

2.5.2.1 Selection and overview

The subsequent section details five mechanisms: sensemaking and the four mechanisms included in Van de Ven and Pool's (1995) framework. Table 21 provides an upfront summary and comparison of the five mechanisms that have been selected because they matter either for the process model conceived from the case analysis (i.e., teleological, dialectic and sensemaking³⁶ mechanism) or the appreciation of existing process models (i.e., life-cycle mechanism).

³⁶ The evolutionary mechanism is not included separately because sensemaking relies on a variant of the evolutionary mechanism as chapter A2.5.2.6 will demonstrate.

Table 21: Comparison of five generative mechanisms

Characteristic	Mechanism				
	Life-Cycle	Teleological	Dialectical	Evolutionary	Sensemaking
<i>Generative force</i> ³⁷	Regulated	Planned	Conflict	Competition	Competition
<i>Process of change</i>	Sequence of stages; full sequence has initiation, growth, decline, termination stages	Unit perceives problem or opportunity, sets goals, acts to achieve goals, monitors outcomes	Unit changes through coping with or due to effects of conflicts, tensions, or contradictions	Unit changes through random or planned variation which are then selected by environmental pressures; effective variations are retained in the unit	Unit changes through interaction between ecological change and enactment that is then selected through combination of retrospective attention, mental models, and articulation; plausible stories are substantiated and retained
<i>Is the end state of the change process defined at the outset?</i>	Yes; final point in sequence	Yes; by the goal	No; end state emerges from process	No; end state emerges from process	No; end state emerges from process
<i>Is the path of development predetermined?</i>	Yes	No	No	No	No
<i>Change process</i> ³⁸	Convergent	Divergent	Divergent	Convergent	Convergent
<i>Concept of time</i>	Cyclical	Event	Event	Cyclical	Cyclical

Source: Adapted from Poole and Ven de Ven (2004, p. 377) and Weick, Sutcliffe and Obstfeld (2005).

2.5.2.2 The life-cycle mechanism

The first mechanism in Van de Ven and Poole's framework, life cycle, was pioneered by Comte (1798-1857), Spencer (1820-1903), and Piaget (1896-1980) (Van de Ven & Poole, 1995). This process mechanism defines change as an entity's transition "through a necessary sequence of stages or phases" (Poole & Van de Ven, 2004, p. 376) of a change process. What happens within these stages is predefined and controlled by a natural, institutional or logical program at the outset of the process (Poole & Van de Ven, 2004). Thus, the life-cycle motor drives change through this program that is either externally imposed or immanent in the changing entity (Van de Ven &

³⁷ For the sake of terminological clarity, I deviate from Poole and Van de Ven's (2004) original terminology. With reference to realist perspective (cf. Reed, 2009), their "theories" are termed "mechanisms" and what they term "generative mechanisms" is referred to as "generative force".

³⁸ For a discussion of divergent and convergent event sequence progressions in developmental models see Van de Ven (1992).

Poole, 1995). Poole and Van de Ven (2004, p. 377) refer to Cameron and Whetten's (1983) organizational life cycle and Greiner's (1972) model of organizational growth as exemplary work relying on this particular type of change mechanism. The life-cycle mechanism is featured explicitly in Bucher's (2010) and implicitly in Cavalcante and colleagues' (2011) process model of the business-model innovation process.

While change within a single stage may be continuous, the progression from one stage to another "involves a qualitative change in the unit and sometimes in the nature of the developmental process itself" (Poole & Van de Ven, 2004, p. 377). Yet, the overall concept of time is cyclical: The entity runs through all stages and at the end the cycle starts anew, with the same or a different unit that changes (Van de Ven & Poole, 1995).

Change driven by the life-cycle mechanism is convergent in nature (Van de Ven & Poole, 1995). Conflict or divergence may well reside within the changing unit at different stages, but as the whole unit undergoes the change process, the final result is a unified, complete unit (Poole & Van de Ven, 2004). To illustrate potential tension that results in a convergent result, Poole and Ven de Ven (2004) refer to Greiner's (1972) conceptualization of change, which refers to crises at each stage of the change process: Early growth, for example, is driven by creativity, but eventually needs leadership for the second stage of growth.

The authors (Poole & Van de Ven, 2004) distinguish three variations of the basic life-cycle mechanism by different generative force: the logical, the natural, and the institutional life-cycle mechanism. Both logical and natural mechanisms exert a strong influence on the sequence of stages. Poole and Van de Ven (2004) give two examples to illustrate a necessary sequence: "later stages in a person's life cannot occur without earlier ones" (p. 377) (i.e., natural generative force) and a re-institutionalization may not appear without a previous de-institutionalization (i.e., logical generative force). In contrast, a life-cycle mechanism regulated by an institutional force (e.g., the legislative approval process for new vaccines) is less stringent in its influence on the change process as exceptions to the institutional rules are possible (Poole & Van de Ven, 2004).

2.5.2.3 The teleological mechanism

The second mechanism in Van de Ven and Poole's framework, the teleological mechanism, was pioneered by Mead (1863-1931), Weber (1864-1920), and Simon (1916-2001) (Van de Ven & Poole, 1995). This mechanism explains change "as a cycle of goal formulation, implementation, evaluation, and modification of actions or goals

based on what was learned or intended by the [unit of change]” (Poole & Van de Ven, 2004, p. 378). This process either results from purposeful action toward envisioned outcome or retrospective social construction by individual actors (Poole & Van de Ven, 2004). Poole and Van de Ven (2004, p. 378) suggest that adaptive learning theories (e.g., March & Olsen, 1976) and models of intentional strategic planning and rational decision-making (e.g., Mintzberg, Raisinghani, & Theoret, 1976) rely on teleological change. The teleological mechanism also features in a number of process models of the business model innovation process (Cule & Robey, 2004; McGrath, 2010; Sosna, et al., 2010).

The desire of the unit of analysis to solve a problem or to capitalize on an opportunity initiates the change process (Poole & Van de Ven, 2004). The unit is considered to envision a desired goal, take action to reach it, and to monitor the progress, which leads to the repetitive teleological cycle (Poole & Van de Ven, 2004).

Poole and Van de Ven (2004) argue that the teleological mechanism can apply to either a single unit (e.g., a manager) of change or a number of units that are like-minded and follow the same goal (e.g., an innovation team). Thus, the teleological process’ path is not predetermined, yet the sequence is driven by the desired goal and the action in its pursuit (Van de Ven & Poole, 1995). Models of this process may include different steps that a unit of change has to follow (e.g., Mintzberg, et al., 1976), however, there are multiple paths through these stages that may be influenced by sudden events, or problems and opportunities that unfold along the process (Poole & Van de Ven, 2004).

Events are the denominators of process timing for teleological change. The process is enacted as a series of events that determine the process’ progress (Poole & Van de Ven, 2004, p. 379). Similar to life-cycle theories, teleological change presupposes process convergence toward an outcome (Van de Ven, 1992). This is achieved by the collectively envisioned goal that drives the change process – in spite of the divergence that may occur over the course of the process (Poole & Van de Ven, 2004).

Poole and Van de Ven (2004) distinguish two variations of teleological mechanisms: processes that have been intentionally planned and processes that are post-hoc rationalized. The authors (Poole & Van de Ven, 2004) note that “proactive processes seem to be the most natural model for teleology for most U.S. social scientists, in view of the common emphasis on the classical conception of rationality in the economic decision making traditions” (p. 379). Sometimes, however, organizational actors make

sense of situations only after a change process has unfolded. This is, for example, what Henry Mintzberg has labeled “emergent strategy” (Mintzberg & Waters, 1985, p. 258).

Readers familiar with Weick’s (1995) conception of sensemaking will have noticed that there is a considerable resemblance between the teleological mechanism and sensemaking (e.g., the retrospective rationalization and enactment). However, chapter A2.5.2.6 will demonstrate that these are indeed two different mechanisms.

2.5.2.4 The dialectic mechanism

The third mechanism in Van de Ven and Poole’s framework, the dialectic mechanism, was pioneered by Hegel (1770-1831), Marx (1818-1883), and Freud (1856-1939) (Van de Ven & Poole, 1995). This mechanism explains change as the result of conflicts between two parties: units with a thesis and units with an antithesis that will eventually collide to form a synthesis (Poole & Van de Ven, 2004). The synthesis will provide the new “thesis for the next cycle of dialectical progression” (Poole & Van de Ven, 2004, p. 379). Poole and Van de Ven (p. 379) view Marx’s (1954) theory of economic development and Sztompka’s (1994) theory of social change as exemplary work relying on dialectic change. Cule and Robey (2004) include the dialectical mechanism in their model of business model change.

Dialectical change is triggered by efforts to deal with contradictions, tensions and conflicts within and around the unit of change (Poole & Van de Ven, 2004). The goal of the dialectic process and the end-state of the changing unit are both unclear at the outset; they emerge as the process unfolds (Poole & Van de Ven, 2004). Poole and Van de Ven (2004) distinguish between dialectical change that is “driven by the conflict or contradiction itself” (p. 379) and dialectic change that “results from attempts of the unit to resolve the conflict or tension and mitigate its negative effects” (p. 379).

As the unit of change has various ways to respond to contradictions, conflicts, and tensions, as well as to reach synthesis, the path of dialectical change will vary from case to case (Poole & Van de Ven, 2004; Van de Ven, 1992). Poole and Van de Ven (2004) emphasize that while it is possible to conceptually distinguish thesis, anti-thesis and synthesis, in reality, they are intertwined and may be identified ex-post only.

The emphasis on contradiction, conflict, and tension then explains the dialectic mechanism’s divergent conceptualization of change processes (Poole & Van de Ven, 2004, p. 380). Therein, time is event-driven (Poole & Van de Ven, 2004): “The dialectic is driven by tensions and contradictions, whose occurrence at irregular intervals mark the significant points in the process” (p. 380).

Poole and Van de Ven (2004) distinguish two types of dialectical mechanisms: on the one hand, the Hegelian conflict-based process of thesis, anti-thesis and synthesis, and on the other hand, the Bakhtinian process of tension-based dialectics. The Hegelian process (cf. Poole & Van de Ven, 2004) is driven by the occurrence of an anti-thesis opposed to the thesis, which will be simultaneously resolved in the synthesis. The synthesis, however, is only a temporary solution to conflict as a new antithesis will eventually arise in response to the synthesis (Poole & Van de Ven, 2004). In the Hegelian dialectic, the unit of change often shows resistance to change and conflict drives the movement through change process (Poole & Van de Ven, 2004). In contrast, the Bakhtinian tension dialectic (cf. Bakhtin, 1981; Werner & Baxter, 1994, cit. in Poole and Van de Ven, 2004) assumes change to reside in the never-ending interplay between dual tensions (e.g., integration and differentiation or exploration and exploitation) that presuppose each other (Lewis, 2000; Seo, Putnam, & Bartunek, 2004). The dynamics of change arise from the necessary acknowledgement of both poles and the active efforts to incorporate them both in the unit of change (W. K. Smith & Lewis, 2011).

2.5.2.5 The evolutionary mechanism

The fourth and final mechanism in Van de Ven and Poole's framework, the evolutionary mechanism, was pioneered by Lamarck (1744-1829), Darwin (1809-1882), Mendel (1822-1884), and Gould and Eldridge (1977) (Van de Ven & Poole, 1995). The evolutionary mechanism explains change as "a repetitive sequence of variation, selection and retention" (Poole & Van de Ven, 2004, p. 380) (abbr. VSR) among units of change that belong to a specific population (Poole & Van de Ven, 2004). VSR is a micro-level process in which characteristics of individual units experience variation, and if this variation provides the unit with an advantage in the competition for scarce resources, the variation is selected and retained in the surviving population (Poole & Van de Ven, 2004). Hence, "populations of a species evolve and eventually prosper or are extinguished" (Poole & Van de Ven, 2004, pp. 380-381). Poole and Van de Ven (2004) list Weick's (1979) theory of organizing and Aldrich's (1979, 1999) theory of organizational ecology as exemplary work relying on evolutionary change process theory. None of the reviewed process models for business model innovation relies on the evolutionary mechanism. The reason for this is most probably the bias of business model research toward managerial action and strategic choice (Lecocq, et al., 2010). However, the evolutionary mechanism is presented here as it matters to sensemaking,

which will feature as one of the mechanisms in the process model configurations that result from the case analysis in chapter B5.

Baum and Rao (2004) emphasize that VSR is quite different from its origin in biology: Variation may result at random or from intentional impulses, selection may be driven by external environmental forces or choices by the unit of change itself, and retention may result from natural mechanisms (e.g., individual memory) or within intentionally created structures (e.g., electronic database serving as organizational memory) (Poole & Van de Ven, 2004).

The path through the VSR sequence is “weakly predetermined” (Poole & Van de Ven, 2004, p. 381): Shifting competitive pressures may cause several evolutionary processes at a time and thus, the specific path through the VSR cycle is hard to determine. Moreover, with its emphasis on variation as the trigger for change, the evolutionary mechanism is divergent in nature and the VSR process incorporates a cyclical view of time that is predefined by the progression through its three sequence stages (Poole & Van de Ven, 2004).

Poole and Van de Ven (2004) distinguish four variations of evolutionary change theories: the Darwinian view, the Lamarckian view, the Mendelian view, and Gould’s view. The Darwinian view (cf. Poole & Van de Ven, 2004) implies that the changing unit’s traits are inter-generationally inherited, which means that the range of possible variations is pre-determined at the unit’s birth through organizational inertia. However, most scholars these days have adopted Lamarck’s perspective (cf. Poole & Van de Ven, 2004), which allows for traits to be acquired over the unit’s lifetime by means of imitation and learning. The Mendelian view (cf. Poole & Van de Ven, 2004) conceptualizes variation as the product of different ancestral resources that either reside within or outside the unit that is subject to change. Variation produces new organizational forms either as hybrids or extensions of existing arrangements (Poole & Van de Ven, 2004). Finally, Gould’s conception (cf. Poole & Van de Ven, 2004) adds a level of hierarchy as it distinguishes between evolution within as well as across populations.

2.5.2.6 The sensemaking mechanism

The sensemaking mechanism in an organizational context “involves placing stimuli [e.g., a disruption of the expected development of the market] into some kind of framework [i.e., a mental model]” (Weick, 1995, p. 4) that enables organizational actors to explicitly construct events (e.g., a problematic situation such as the market entry of a new competitor), infer meaning from these events, and determine their actions

(Weick, et al., 2005). Weick, Sutcliffe, and Obsfeld (2005) conceive the mechanism as a process of intra-organizational evolution (abbr. ESR): New meaning or sense is created in “the reciprocal relationship between ecological change and enactment” (Weick, et al., 2005, p. 414). The multitude of meaning is subsequently subject to a selection process that reduces equivocality and plausible meaning is retained and substantiated (Weick, et al., 2005).

Each step in the ESR process is characterized by a number of sensemaking activities that allow dealing with ambiguity and uncertainty (Weick, 1995; Weick, et al., 2005): At the beginning (i.e., in the interaction of ecological change and enactment) ecological change is sensed, order enacted in the continuous flow of experience, and externalities shape sensemaking subjects (Weick, et al., 2005). The bracketed flow of experience is subsequently reduced by a “combination of retrospective attention, mental models, and articulation [into] ... a locally plausible story” (Weick, et al., 2005, p. 414). This story is finally retained by relating it to past experience, identity, and the story’s use “as a source of guidance for further action and interpretation” (Weick, et al., 2005, p. 414).

The sensemaking mechanism is driven by a competition of different meanings that develop in sensemaking occasions (Weick, et al., 2005). Ambiguity and uncertainty are among the common occasions in which people engage in organizational sensemaking (Weick, 1995): While ambiguity creates confusion because of equivocality, uncertainty refers to the absence of any interpretation from the perspective of actors that engage in sensemaking. The path through the cyclical ESR sequence is “weakly predetermined” (Poole & Van de Ven, 2004, p. 381) as it is the case for the evolutionary mechanism. Besides multiple, parallel sensemaking processes at different sequence stages, the feedback of retained meaning on enactment and selection (Weick, et al., 2005) distinguish sensemaking from mechanisms with strong predetermined paths. Nonetheless, change in the sensemaking mechanism is convergent as the ESR process leads toward the retention of selected, locally plausible sense that resulted from an initially equivocal situation (Weick, et al., 2005).

At first glance, the sensemaking mechanism bears resemblance to the teleological mechanism. However, they differ in four crucial aspects (Poole & Van de Ven, 2004; Weick, 1995): First, while the teleological mechanism is mostly about action and decision making, sensemaking emphasizes the role of making sense and its enactment to select and retain meaning. Second, in sensemaking, meaning is constructed in an ongoing flux of experience; however, teleology suggests that the purpose is out there to be

discovered. Third, that which is discovered in teleology serves to determine a predefined outcome to which the process is geared. In contrast, the outcome of sensemaking is not predetermined as sense and enactment are intertwined and interact. Finally, sensemaking is more about plausibility than the accuracy on which the rational planning of certain teleological decision-processes is premised.

The overview of different process theories (i.e., generative mechanisms) in the literature on organizational change and innovation concludes this study's review of the general theoretical and conceptual background. Chapter A2.6 provides theoretical and conceptual conclusions on the basis of this review.

2.6 Theoretical and conceptual conclusions

2.6.1 The research framework

In conclusion, this theoretical and conceptual background chapter has argued that the business model is a sensible and meaningful construct that allows management and organization researchers to conceptualize and comprehend the integrated innovation of the way value is created (i.e., how and for whom) and the way value is captured by a focal organization.

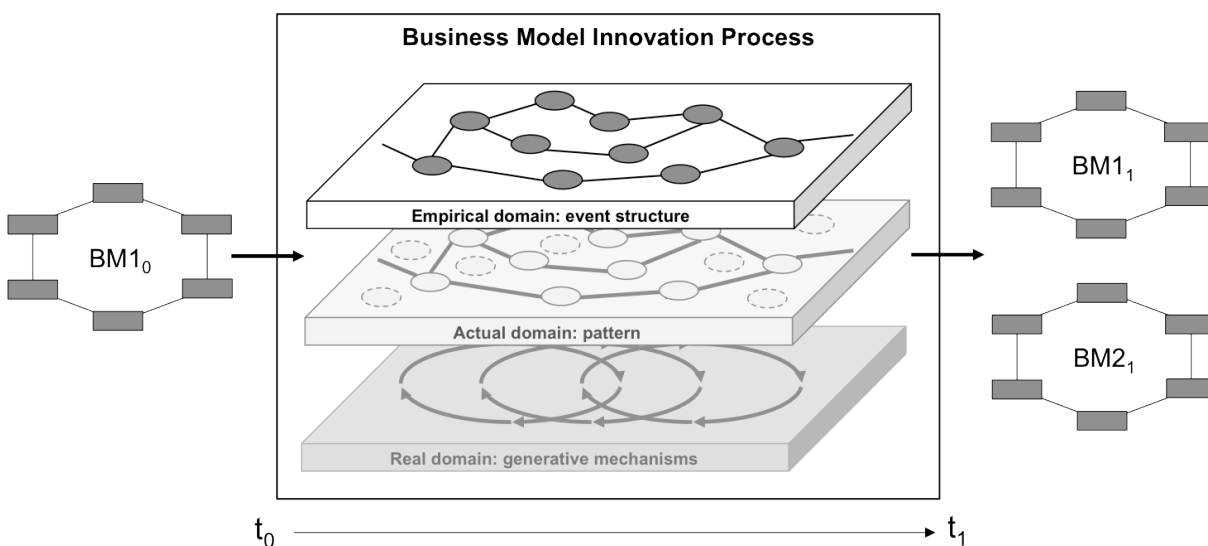
In the absence of a single comprehensive conceptualization, the *value-based business model* (cf. chapter A2.2) will serve as the clearly specified and subsequently operationalized conceptualization informing the subsequent case study, which contributes to the collective research program on business models (Lecocq, et al., 2010). Bieger and Reinhold's (2011) conceptualization is a reasonable choice because it centers around the idea of value creation and capture, connects the elements of the business model to existing theoretical frameworks and concepts, and allows the describing of the system-wide changes that business model innovation might give rise to.

With reference to existing definitions (i.e., Casadesus-Masanell & Zhu, 2013; Zott & Amit, 2007), *business model innovation* has been defined as a new business model configuration that specifies new ways to create and capture value for the focal organization, its customers, and other stakeholders. To be classified a business model innovation, change in business model elements must alter the element's interaction as captured by the business model architecture (Henderson & Clark, 1990; Zollenkop, 2006), but these configurations need not be "new to the world". They must qualify as innovations from the focal organization's point of view, however (cf. N. Anderson, et al., 2004). This definition sets business model innovation apart from other innovation types (cf. chapter A2.3.2).

The *review* of existing work on business model innovation along five key constructs of innovation management (i.e., ideas, people, transactions, context, outcomes) (Van de Ven, 1986) (cf. chapter A2.3.3) as well as the review of existing process models of business model innovation (cf. chapter A2.4.2) have demonstrated that we know relatively little about the material and cognitive mechanisms that drive both business model conceptualization and implementation as well as their respective interactions. In addition, the dynamics of the relationship between the existing and the new business model are as of yet subject to debate.

Figure 16 details how the conceptualizations of the business model, business model innovation, innovation process, and generative mechanisms as well as the review of existing work are synthesized to inform the *research framework* that guides the subsequent case studies of an incumbent organization innovating its business model.

Figure 16: Research framework



Note: Ovals denote realized events; ovals in dotted lines represent possible but not realized events; hexagons denote business models. Source: Own representation based on Bhaskar's (2008) stratified view of reality.

Figure 16 depicts the process of business model innovation for an incumbent organization that starts at t_0 with an established, implemented business model ($BM1_0$) and arrives at a later point in time (t_1) with two business models beside each other: a new business model ($BM2_1$) and a later version of the old business model ($BM1_1$). The process itself is represented on three layers (cf. Bhaskar, 2008) and constituted of three entities: events, patterns, and generative mechanisms. The first layer, the empirical domain, contains a sequence of events in temporal and spatial order (depicted as con-

nected ovals). An event represents the activity of an entity (e.g., innovation project manager or team) (Pajunen, 2008). The case analysis will attend to events that represent a change in ideas, people, transactions, context, and outcomes (Van de Ven, 1986; Van de Ven & Angle, 2000) in order to focus the observation of events and connect the analysis of the business model innovation process to existing studies for different innovation types. The second layer, the actual domain, consists of all the events that the mechanisms working in the real domain could have activated (Miller & Tsang, 2011). Events that did not materialize in the empirical domain are represented by ovals drawn in dotted lines. The focus here is on the pattern of events (cf. Abbott, 1990) that do materialize in the empirical domain, as represented by the connection between the materialized events. The pattern subsequently permits insight into which generative mechanisms operate in the real domain on the third layer (Pajunen, 2008; Reed, 2009).

Hence, overall, the research framework combines critical realist philosophy's layered view of reality with the process approach's endeavor to uncover the contents of the proverbial process "black box" (Mohr, 1982; Poole, et al., 2000) that brings about business model innovation. The constituents of the research framework are picked up again in chapter B4.4 where they are operationalized for the case study analysis.

2.6.2 A priori expectations

In addition to the research framework, the theoretical and conceptual background chapter also allows drawing conclusions as to what to expect of the business model innovation process based on the literature review of existing work on business model innovation along five key constructs of innovation management (i.e., ideas, people, transactions, context, outcomes) (Van de Ven, 1986) as well as the review of existing process models of business model innovation.

Table 22 summarizes these a priori *expectations* along the five key concepts of innovation management. Note that these statements per concept are termed expectations rather than propositions for the sake of conceptual clarity. Propositions regarding the research questions based on the empirical case study and existing theory are the outcome of the qualitative study presented in this dissertation. It is not the purpose of this case research to test the literature's predictions with a small-N sample.

Table 22: A priori expectations

Concept	Expectation	Source(s)
<i>Idea</i>	1. The business model innovation is not the brainchild of a single innovator born at a precise moment in time.	(Van de Ven, et al., 2008)
	2. Shocks mobilize and focus efforts to develop new ideas and implement a new business model.	(Van de Ven, et al., 2008)
	3. The path of the innovation project is likely non-linear (fraught with setbacks and crises) and results from a mixture of emergent and intended efforts.	(Bucherer, et al., 2012; Demil & Lecocq, 2010; Van de Ven, et al., 2008)
	4. The ideas for new business model configurations are likely to proliferate and develop in parallel.	(Van de Ven, et al., 2008)
	5. Conflict is likely to occur between the existing business model (representing old ideas) and the new business model (representing new ideas).	(Cule & Robey, 2004)
<i>People</i>	1. Business model innovation requires people to learn about value creation and value capture.	(Chesbrough, 2010; Teece, 2010)
	2. People are incapable of designing the new business model in all its elements and architecture without market learning.	(Casadesus-Masanell & Ricart, 2010a; Sosna, et al., 2010)
	3. Learning from successful experiments and failures improves people's understanding of the new business model configuration.	(Chesbrough, 2010; McGrath, 2010)
	4. Innovation champions are likely to matter for the support of the business model innovation project.	(Bucherer, et al., 2012)
	5. Business model innovation is likely to require people at different levels and in different parts of the innovating organization to contribute their skills and energy levels for the endeavor to succeed.	(Teece, 2007; Van de Ven, et al., 2008)
	6. People's existing mental models and cognitive abilities matter in both the perception of the opportunity to innovate and the development and implementation of a new business model.	(Aspara, et al., 2011, 2012; Chesbrough, 2010; Tikkanen, et al., 2005)
<i>Transactions</i>	1. Knowledge and other resources necessary for the business model innovation project may result from relationships with external transaction partners.	(Chesbrough & Schwartz, 2007; Dahan, et al., 2010)
	2. Relationships with transaction partners may lock the business model innovation endeavor into specific developmental paths.	(Van de Ven, et al., 2008)
<i>Context</i>	1. The new business model concept may develop both within as well as outside of the existing strategic context	(Burgelman, 1983a; Demil & Lecocq, 2010)
	2. The organizational context needs to be tailored to the relationship of units pursuing the old and new business model respectively.	(Chesbrough, 2010; Govindarajan & Trimble, 2005a; Markides & Charitou, 2004; Westerman, et al., 2006)
	3. Shocks in the external context may impede business model innovation efforts.	(Casadesus-Masanell & Zhu, 2013; Teece, 2010; Van de Ven, et al., 2008)

(Table continued on next page)

<i>Outcomes</i>	1. A new business model innovation concept is designed around one or more of Amit & Zott's design themes (i.e., novelty, complementarities, lock-in, efficiency) .	(Amit & Zott, 2012)
	2. Timelines and outcome criteria for a business model innovation project shift after an initial grace period.	(Van de Ven, et al., 2008)
	3. The wish to allocate resources to their most profitable use threatens business model innovation projects early in their lifetime.	(Chesbrough, 2010)
	4. Efforts to develop and implement a new business model need a new set of key metrics for the initiative to thrive.	(Govindarajan & Trimble, 2005a; Johnson, et al., 2008)

Source: Own representation

The overview of a priori expectations relating to the five core concepts, which will be revisited in the case study discussion in chapter B6.1, concludes the theoretical and conceptual background chapter of this dissertation. Subsequently, chapter A3 will detail the industry context, explain why the German-speaking part of Switzerland is exemplary to study business model innovation, and outline the market setting at the time of the study.

3 Industry background

3.1 Overview of Swiss newspaper business

The Swiss newspaper business was selected for the study of business model innovation by incumbent organizations for a number of reasons (cf. chapter A1.3). Most importantly, the Swiss newspaper business represents a prime example of a market whose incumbents were suddenly presented with new entrants that competed on the basis of new ways to create and capture value (Haller, 2009a). The free newspaper concept, which harnessed these new ways of competing, is recognized as business model innovation by business model scholars (e.g., Casadesus-Masanell & Ricart, 2010b; Casadesus-Masanell & Zhu, 2013; Teece, 2010), media industry researchers (e.g., Bakker, 2002a; Picard, 2001), and professionals (e.g., Iordan & Chisholm, 2005; Picard & Dal Zotto, 2006) alike.

The following sections provide background information on the industry context of the business model innovation case study. In particular, they summarize key market figures³⁹, with a focus on the late 1990s and early 2000s, explain why free newspapers represent the kind of stimulus for business model innovation that is of interest to this dissertation, and set the scene of the industry-level context for the subsequent case-study analysis.

3.1.1 Newspaper supply

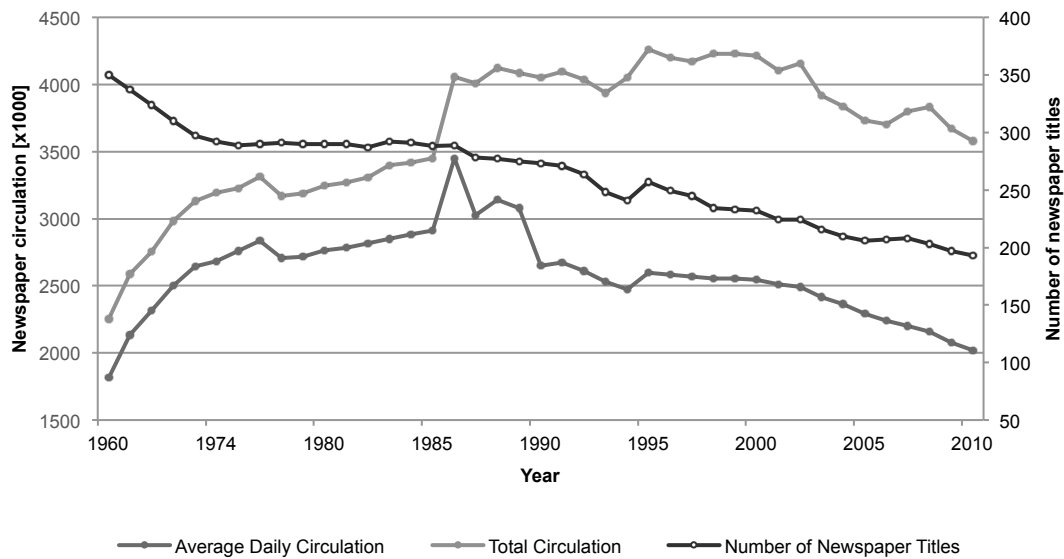
Over the past century the number of daily paid newspapers in Switzerland has significantly declined from about 400 titles in 1939 to less than 250 titles in the early 1990s (Kradolfer, 2007). At the beginning of this period, paid daily newspapers were mostly small, locally oriented and associated with specific political groups (Kradolfer, 2007). However, there has been a considerable increase in concentration in the market (BFS, 2001) and today's daily newspapers in Switzerland are mostly cross-party and cross-regional newspapers covering international, national and local news for their target readership (Kradolfer, 2007). In this process, formerly independent local newspapers have become part of larger publishing groups. While these newspapers still exist in name, their editorial offices only supply the local news section for a newspaper that

³⁹ Note that figures in this chapter are of indicative character. The data used to compile figures and charts was collected by a national institution monitoring media usage and circulation (WEMF), the federal office for statistics (BFS), and the World Association of Newspapers (WAN). Conceptual definitions (e.g., what constitutes a free newspaper) and categorizations (e.g., cut-off points for age groups) varied and have been adjusted/reconciled as far as possible.

otherwise draws on the publishing group’s international and national news coverage (Haas, 2005; Kradolfer, 2007).

While the total number of newspaper titles had ben falling since the early 20th century, the remaining and merged newspaper titles were, until the mid-1980s, making up for this loss through an increase in total circulation (BFS, 2010; Kradolfer, 2007). From the mid 1980s until 2002, the total circulation of daily newspapers remained fairly stagnant at a level above 4 billion newspapers (cf. Figure 17). Yet, average daily circulation has been declining ever since the mid-1980s (Kradolfer, 2007). This decline in circulation has not affected all paid newspaper categories in the same way (Kradolfer, 2007): While the number of daily paid newspapers appearing four times or more a week shrank by about a third between 1985 and 2005, the number of newspapers appearing once a week, particularly Sunday newspapers, soared.

Figure 17: Average and total daily newspaper circulation



Note: Figures for Switzerland from 1960 to 2010. Source: Based on BFS (2010).

Table 23 provides the definitions for the different newspaper types that the Swiss industry body for media measurement (abbr. WEMF) uses to audit circulation figures

Table 23: Newspaper typology

Typology	Description	Source
Daily newspaper ("dailies")	The newspaper is available to readers on four or more days a week. The newspaper contains general information on current events, politics, the economy, and sports. The newspaper targets the general public on a general basis and is not restricted in access.	(WEMF, 2012, p. 4)
Regional weekly newspaper ("non-dailies")	The newspaper is available on three or fewer days a week. It targets the general public and is not restricted in access.	(WEMF, 2012, p. 4)
Sunday newspaper ("Sundays")	A newspaper available on Sundays.	(WEMF, 2012, p. 4)
Free daily newspaper ("free daily")	The newspaper is available to readers on four or more workdays at no cost. Advertising revenues cover production and distribution costs. The newspaper contains edited sections containing general information on current events making up no less than 40 percent of the newspaper's total volume of a minimum of 16 pages. The edited sections follow journalistic principles (i.e., independence, trueness, relevance, and general intelligibility).	(Haller, 2009a, p. 17)
Free weekly newspapers ("free sheets")	The newspaper is available on three or fewer days a week at no cost. The newspaper mainly serves "as an advertisement platform for local business and [carries] some news an service for local communities".	(Bakker, 2002b, p. 78)

Source: Own representation.

The effect of concentration and mergers in the Swiss newspaper business (BFS, 2010; Kradolfer, 2007) shows in the fact, that about ten paid daily newspapers, each with a circulation of roughly 100,000 copies (cf. Table 24), reach about 65 percent of the Swiss population, which makes up approximately 80 percent of the total reach of daily newspapers in Switzerland between 2001 and 2006 (Kradolfer, 2007). Table 24 provides the circulation and readership figures for the top 10 Swiss newspapers between 1998 and 2009. The media companies publishing these newspapers are also among Switzerland's largest publishing companies measured by their revenues. The two largest paid daily newspapers, BLICK and TAGES ANZEIGER, have declined considerably in circulation and lost readership between 1998 and 2009.

The majority of daily newspapers are sold on a subscription basis with home or postal delivery service. Between 1994 and 2009, the average rate of over-the-counter sales for daily newspapers fluctuated between 12 and 9 percent (WAN, 1999-2009). The average cover price for subscription fluctuated between CHF 1.00 and CHF 0.85 per issue, while the average cover price for single copy sales increased from CHF 1.75 to CHF 2.10 (WAN, 1999-2009).

Table 24: Top 10 daily newspaper circulation and readership

Newspaper (Publisher)	[x1000]	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
24 heures (Edipresse Publications S.A.)	Readership	290	271	232	234	241	243	245	226	-	-	-	-
	Circulation	89	89	90	88	88	89	86	103	-	-	-	-
Aargauer Zeitung (ced.) (AZ Medien Gruppe)	Readership	250	253	221	213	-	-	-	-	-	-	-	-
	Circulation	119	119	120	118	-	-	-	-	-	-	-	-
Basler Zeitung (Basler Zeitung Medien)	Readership	240	245	218	210	208	226	221	210	212	188	171	169
	Circulation	115	116	115	115	109	104	101	99	99	94	93	88
Berner Zeitung (Espace Media Groupe)	Readership	309	304	255	331	303	341	426	405	392	405	398	395
	Circulation	134	135	136	137	162	163	166	167	158	213	213	200
Blick (Ringier)	Readership	774	760	742	739	734	746	736	717	715	689	650	651
	Circulation	316	317	314	309	309	292	275	262	255	240	231	215
Die Südostschweiz (Südostschweiz Presse)	Readership	253	246	232	230	228	243	249	249	245	237	232	236
	Circulation	144	140	138	139	139	138	145	140	140	127	127	126
Mittellandzeitung (AZ Medien Gruppe)	Readership	-	-	-	-	361	366	381	389	449	429	414	421
	Circulation	-	-	-	-	198	194	190	189	210	207	203	192
Neue Luzerner Zeitung (ced.) (Neue Luzerner Zeitung AG)	Readership	283	291	273	273	258	289	290	292	294	287	280	278
	Circulation	132	133	133	134	134	133	134	132	131	130	129	127
Neue Zürcher Zeitung (NZZ Gruppe)	Readership	435	420	308	300	297	324	316	331	312	312	291	294
	Circulation	162	167	169	170	170	166	155	151	147	144	127	140
St. Galler Tagblatt (ced.) (St. Galler Tagblatt AG)	Readership	249	241	220	212	207	226	239	229	219	206	192	201
	Circulation	119	116	110	110	111	110	108	106	103	102	99	95
Tages Anzeiger (Tamedia AG)	Readership	729	718	616	566	531	559	573	567	551	536	487	487
	Circulation	283	282	280	268	250	235	236	231	225	216	214	209
Zürcher Landzeitung (Zürcherland Medien AG)	Readership	-	-	-	-	-	-	-	-	215	205	209	194
	Circulation	-	-	-	-	-	-	-	-	110	107	104	100
Total	Readership	3812	3749	3317	3308	3368	3563	3676	3615	3604	3494	3324	3326
	Circulation	1613	1614	1605	1588	1670	1624	1596	1580	1578	1580	1540	1492

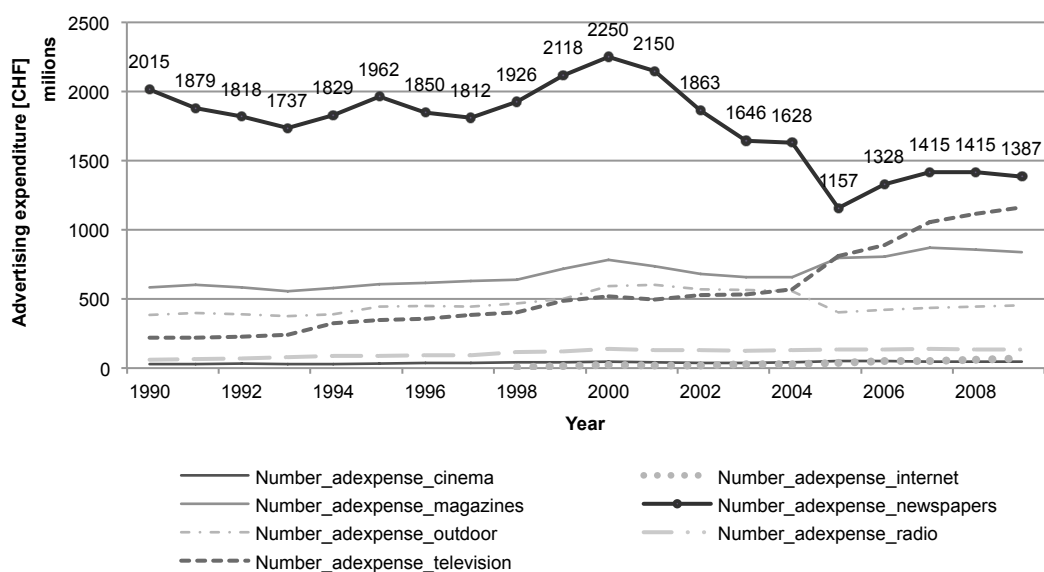
Note: Figures for Switzerland from 1998 to 2000. ced.: complete edition; “-“: missing value; Figures for NZZ includes Swiss edition; Figures for BERNER ZEITUNG include DER BUND from 2007 on.

Source: Own representation based on WAN World Press Trends (1999-2009).

3.1.2 Demand for advertising space

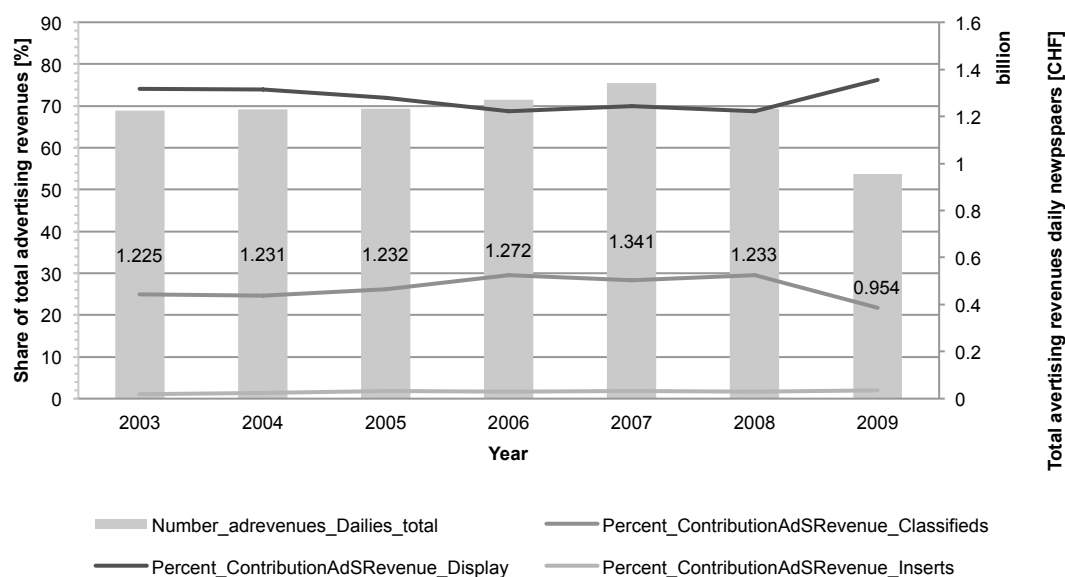
Besides subscription and single copy sales revenues, daily paid newspapers depend largely on advertising revenues. The advertising expenditure curves in Figure 18, which were derived from the World Association of Newspaper's World Press Trend Reports (WAN, 1999-2009), illustrate that newspapers received the most advertisement expenditures between 1990 and 2009. However, other media, in particular television, are closing in and newspapers have lost significantly more advertisement revenues than a shift to other media such as television and the Internet would explain.

Figure 18: Advertising expenditure per media



Note: Figures for Switzerland from 1990 to 2009. Numbers include, agency commission; exclude discounts, production cost, classified advertising; Internet figures for display only. Source: Based on WAN World Press Trends (1999-2009).

Between 2003 and 2009, the largest share of advertising revenues in daily newspapers, about 61 to 76 percent, resulted from traditional ad displays (WAN, 1999-2009). The remainder was made up of 21 to 35 percent revenues from classifieds and 1 to 6 percent from inserts (WAN, 1999-2009), as Figure 19 illustrates.

Figure 19: Daily newspaper advertising revenue sources

Note: Figures for Switzerland from 2003 to 2009. Ad revenue figures for free and paid for dailies represent net prices excluding production cost. Source: Based on WAN World Press Trends (1999-2009).

Table 25: Top Swiss advertising categories

Categories	2000		2005		2009	
	Categories	[%] advertising display revenue	Categories	[%] advertising display revenue	Categories	[%] advertising display revenue
Media	Media	13.4	Retail/ Trade/ Wholesale	11.0	Public Sector	21.4
Automobile	Automobile	11.8	Automobile	9.1	Automobile	11.8
Retail/ Trade/ Wholesale	Retail/ Trade/ Wholesale	8.7	Financial/ Assurance	7.8	Events	11.2
Telecommunications/ Internet	Telecommunications/ Internet	7.1	Home / Household/ Garden	4.9	Financial/ Assurance	8.6
Financial/ Assurance	Financial/ Assurance	6.0	Tourism / Leisure Time	4.4	Services	6.2
Services	Services	5.3	Consumer electronic products/ Optics	3.7	Telecommunications/ Internet	5.7
Trade advice	Trade advice	3.5	Telecommunications/ Internet	3.3	Tourism / Leisure Time	4.8
Industry associations	Industry associations	3.4	Public Sector	2.5	Home / Household/ Garden	4.1
Clothing/ Shoes	Clothing/ Shoes	3.0	Services	2.5	Aliment	3.8
Home/ Household/ Garden	Home/ Household/ Garden	3.0	Clothing/ Shoes	1.7	Industry/ Trade	3.2

Source: Based on WAN World Press Trends (2001, 2006, 2010).

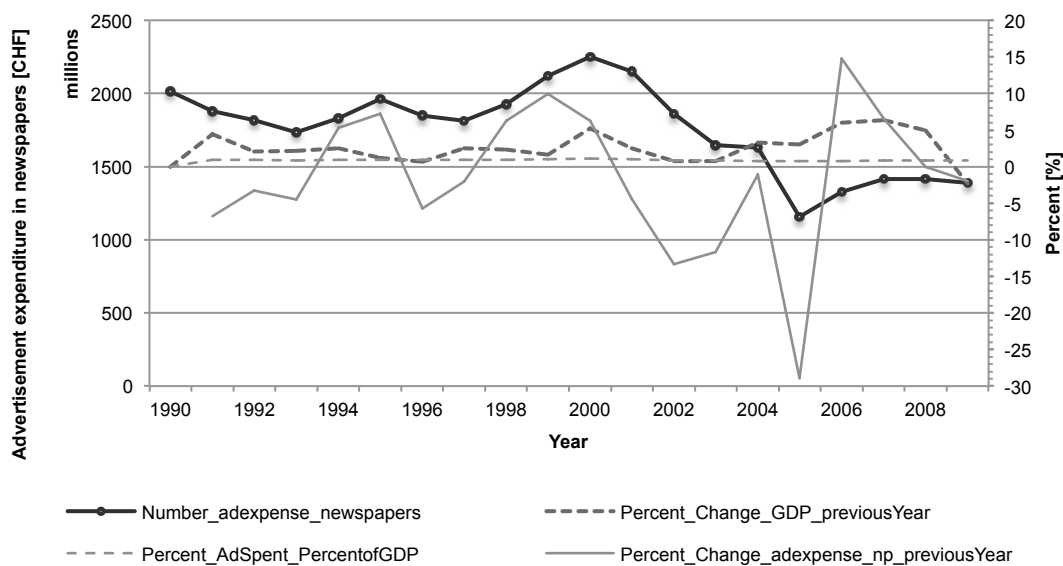
In 2006, the year the case company introduced its first free newspaper, all paid-for and free-newspapers sold approximately 150,000 advertising pages including display ads and classifieds but excluding inserts (WAN, 1999-2009). Most display advertisements that year came from the advertisement category “Retail, Trade and Wholesale” (WAN, 2007) just as in the previous year. Table 25 (p. 119) displays the top 10 advertising categories for 2000, 2005, and 2009. Retail, trade and wholesale advertisements matter as categories, which was particularly true in the early 2000s. Moreover, Table 26 demonstrates that the two largest Swiss retailers, MIGROS and COOP, taken together feature as the single largest advertising client of newspapers throughout the 2000s.

Table 26: Top Swiss advertisers and advertising expenditure in newspapers

2000		2005		2009	
Advertisers	[CHF, m.]	Advertisers	[CHF, m.]	Advertisers	[CHF, m.]
MIGROS	113.4	MIGROS	67.2	MIGROS	71.4
COOP	78.2	COOP	56.5	COOP	46.6
SWISSCOM	37.7	MANOR	28.8	ALDI SUISSE	22.7
AMAG	26.9	FUST	22.9	KONZERTVERAN- STALTUNGEN SCHWEIZ	18.2
FUST	24.9	SWISSCOM	19.2	SUNRISE	15.3
DENNER	23.6	CS GROUP	13.7	MANOR	14.6
ORANGE	23.3	DENNER	13.1	SWISSCOM	13.1
UBS	21.8	UBS	12.7	CITROEN	12.3
MEDIA MARKT	21.2	POST	12.1	RENAULT (NISSAN)	12.1
MERCURI URVAL	20.4	MEDIA MARKT	11.9	MEDIA MARKT	11.1

Source: Based on WAN World Press Trends (2001, 2006, 2010).

Figure 20 illustrates that the total advertising expenditure on all media in percent of Switzerland’s gross domestic product has consistently been around one percent in the 1990s and 2000s. The Swiss gross domestic product has grown at an average of 2.6 percent over the same period (BFS, 2012). Total advertising expenditure in newspapers, however, shrank by an average of 1.4 percent per year between 1990 and 2009 with the biggest annual gain (14.8 percent) in total advertising expenditure in newspapers in 2006 and the biggest loss (-28.9 percent) in 2005 compared to the previous year (WAN, 1999-2009).

Figure 20: Newspaper advertising revenue sources

Note. Figures for Switzerland from 1990 to 2009. Source: Based on WAN World Press Trends (1999-2009) and BFS (2012).

3.1.3 Newspaper demand among readers

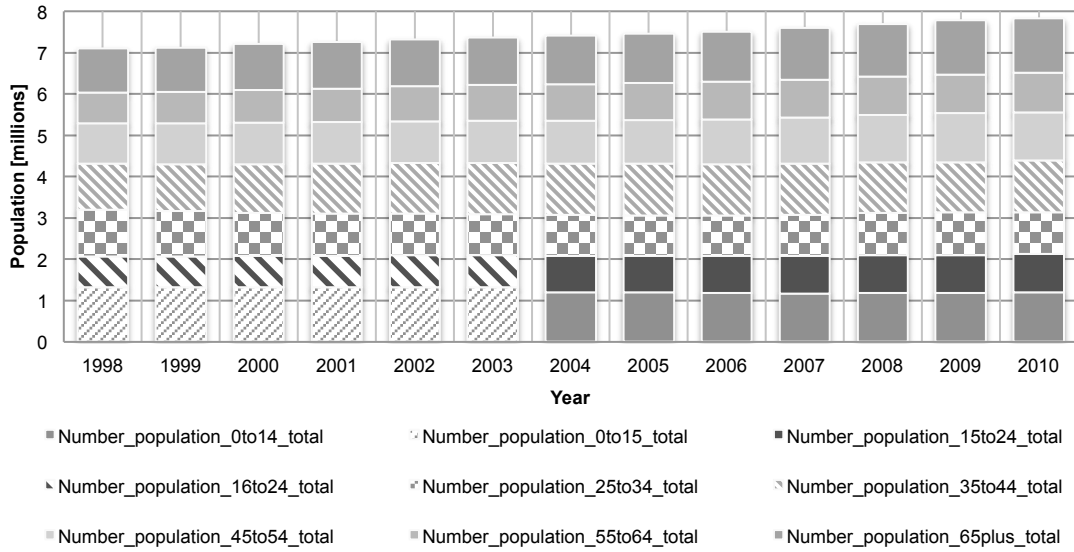
Switzerland's population has grown from about 7.1 million people in 1998 to 7.8 million in 2011 (WAN, 1999-2011). Figure 21 (p. 122) shows the total population distribution across different age groups between 1998 and 2010⁴⁰.

Swiss newspapers reached between 73 and 83 percent of the adult population in the period between 1998 and 2011 (WAN, 1999-2011). However, in terms of media consumption in minutes per day, newspapers only achieved consumption time figures of about half those of radio and television programs between 1995 and 2008⁴¹ (WAN, 1999-2009), as indicated in Figure 22 (p. 122).

⁴⁰ Data for 2011 by age category were not available.

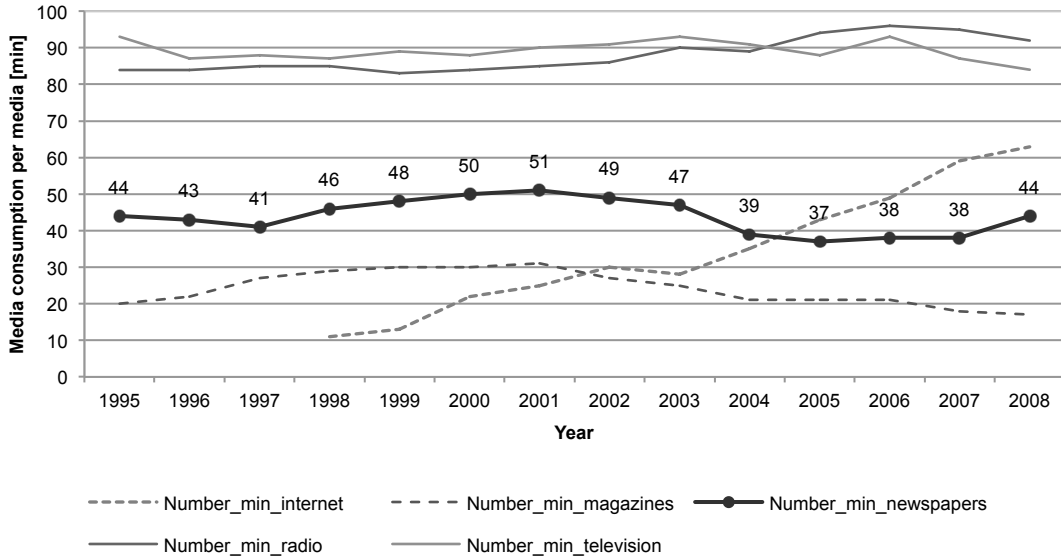
⁴¹ Study discontinued after 2008.

Figure 21: Swiss population by age groups



Note: Figures for Switzerland from 1998 to 2010. Change in population group in 2004 for two lowest age groups. Source: Based on WAN World Press Trends (1999-2011).

Figure 22: Media consumption of the Swiss population



Note: Figures for Switzerland from 1995 to 2008. Self-declaration figures, representative sample of Swiss population (age 18-65). Source: Based on WAN World Press Trends (1999-2009).

Three population-related trends characterized the actual and potential newspaper readership when the first modern free dailies (Bakker, 2002a) were introduced in the late 1990s and early 2000s: First, the number of households grew disproportionately to population growth in Switzerland between 1990 and 2000. Single-person and single-

parent households contributed in particular to this growth, which saw an increase to 3.12 million households in 2000 (Bauer, 2005; Fux, 2005). Second, the percentage of people living in urban areas had grown to about 73 percent of the Swiss population, with 1.08 million living in Zurich, 0.48 million in Basel, and 0.35 million in Berne (Haug & Schuler, 2003). Finally, about 58 percent of the labor force commutes to work, which takes about 20 minutes on average (Frick, Wüthrich, Zbinden, & Jeler, 2004; Haug & Schuler, 2003). The percent of commuters (including members of the labor force and students) relying on public transport is particularly high in urban areas, reaching levels of more than 50 percent (Frick, et al., 2004). Reliance on public transport is not tied to particular professional categories or educational level: about 20 percent of each category, from top managers to blue-collar workers, commute by public transport (Frick, et al., 2004).

These trends were not unique to Switzerland. Haller (2009a), Haas (Haas, 2005, 2006), and a report published by the WAN (Jordan & Chisholm, 2005) point out that these trends were also present in other markets in which free newspapers appeared. The following subchapter will elaborate what the “free” concept has meant for the newspaper business and how it relates to market conditions.

3.2 “Free” as a disruption in newspaper business

The notion of “free” has found its way into the business models in different industries (C. Anderson, 2009). Even though the basic idea of a free unit of business (e.g., a newspaper, a cell phone or a coffee machine) is always the same, there are at least six distinct business model configurations that have evolved a notion of “free” (McGrath, 2010), as summarized in Table 27 (p. 124).

The business model of free newspapers is built on ad-sponsoring in the above typology. Advertisers pay newspaper publishers in order to place their advertising messages and thus gain access to readers and draw readers’ attention. The basic idea of giving away newspapers has been around for quite some time. Free broadsheets, i.e., free weekly newspapers, have been on the market since the second half of the 19th century (Bakker, 2002b; Haas, 2005). However, the new daily free newspapers (“free dailies”) that emerged in the second half of the 1990s⁴² are a quite recent phenomenon (Haller, 2009a).

⁴² Bakker (2002b) points out that there were several earlier attempts in the Netherlands and the United Kingdom with comparable concepts that did not catch on in their respective markets.

Table 27: Business model configurations based on “free”

Configuration	Description	Example
<i>Advertising / ad-sponsoring</i>	The unit of business is given away for free in exchange for customers' exposure to advertisements. Advertisers pay the supplier of the unit of business for its production.	Free newspapers, web search, or e-mail services.
<i>Cross-subsidization</i>	The free or very inexpensive unit of business is cross-subsidized by a complementary unit of business that is sold at a high margin.	Printers and ink cartridges or coffee machines and capsules.
<i>Promotion</i>	The free unit of business serves as a promotional tool for an entirely different unit of business.	Artist's free digital audio track advertises a concert or free computer game promotes a computer graphics card.
<i>Freemium</i>	The basic version of the unit of business is given away for free and added functionality and services are sold at a cost. The intention is to profit from network effects resulting from a high number of attracted clients and eventual upselling.	Professional network platforms such as LINKEDIN or XING, or SKYPE Voice over IP.
<i>Barter</i>	The unit of business is given away for free in exchange for a different unit of business offered at no cost by the first unit's recipient.	GOOGLE provides free directory assistance to improve its voice recognition technology with customer feedback.
<i>Gratis</i>	The unit of business is offered for free because the supplier enjoys the act of production or the contribution made by donating the unit of business.	LEGO enthusiasts contribute their designs for new models, experienced do-it-yourselfers offer their advice on DIY problems on internet platforms.

Source: Adapted from McGrath (2010, pp. 250-251).

Today's free dailies trace their roots back to the METRO concept launched in Sweden's capital, Stockholm, in February 1995 (Bakker, 2002a; Vogel, 2001). The idea for the newspaper is believed to have originated with three Swedish students who pitched their free newspaper concept to publishers and banks (Haas, 2006; Lüönd, 2008b). Yet, the incumbent publishers and banks were reluctant to invest in the new venture; however, an investment group with experience in media and telecommunications business was willing to fund the concept in 1994 (Bakker, 2002a; Lüönd, 2008b). In consequence, METRO free daily was published by the MODERN TIMES GROUP, the media division of AB KINNEVIK investment group (Vogel, 2001) from 1995 to 2000 before its shares were sold and consolidated in the new, Luxembourg-based METRO INTERNATIONAL S.A in 2000 (Bakker, 2002a).

METRO's Stockholm edition proved tremendously successful. The free daily became profitable just nine months after market launch and became the most widely read daily newspaper in Sweden in 2000 (Vogel, 2001). Spurred on by this initial success, the METRO newspaper has since expanded nationally and internationally (Haas, 2006). The Czech Republic (July 1997), Hungary (February 1998), the Netherlands (June

1999), and Switzerland (January 2000) were among the first foreign markets METRO INTERNATIONAL entered (Haas, 2006; Haller, 2009a).

METRO's rapid expansion attracted the attention of other publishers throughout Europe and two other chains developed free newspaper business models, which they multiplied (Vogel, 2001). ASSOCIATE NEWSPAPERS, a subsidiary of the DAILY MAIL AND GENERAL TRUST, started publishing a free daily newspaper under the METRO brand name in England and Scotland. METRO U.K. subsequently expanded to Edinburgh and Manchester (Vogel, 2001) and has proven very successful in the United Kingdom (WAN, 2010). METRO INTERNATIONAL did try to gain a foothold in the United Kingdom's newspaper market in early 2000 but stopped operations in their test market Newcastle after just 11 months due to a lack of readership and perspective (Vogel, 2001).

The second other media group that established a series of free newspaper businesses in a number of foreign markets was Norwegian publisher SCHIBSTED ASA (Bakker, 2002a). In 1996, SCHIBSTED ASA announced the introduction of a free newspaper in Norway to ward off METRO INTERNATIONAL (Vogel, 2001). However, SCHIBSTED ASA did not seriously⁴³ invest in activities related to the free newspaper business model until 1999, when it established 20 MIN HOLDING AG in Switzerland. The holding's purpose was to manage SCHIBSTED ASA's European free newspaper expansion, which in the beginning, included 20 MINUTEN in Switzerland (December 1999), 20 MINUTEN in Germany (December 1999), and 20 MINUTOS in Spain (February 2000) (Haas, 2006; Vogel, 2001).

The prospect of and/or the actual market entry of either SCHIBSTED ASA or METRO INTERNATIONAL in European markets left incumbent publishers with the task of making sense of this new development and eventually deciding upon an adequate response.

At the time free newspapers entered the European newspaper market, publishers of paid newspapers found themselves in mature and slightly declining national markets (Bakker, 2002b; WAN, 2001). Publishers' attention was focused on the implications of the Internet, online editions of their newspapers, and readers' changing media usage habits, which included accessing news for free on the internet, devoting less attention to individual media because of multi-tasking as well as more fragmented media supply

⁴³ Vogel (2001) reports that the threat to introduce a free daily in Norway did ward METRO INTERNATIONAL off and SCHIBSTED ASA only introduced a free newspaper in Oslo in April 1999. However, their free daily AVIS1 serves mostly as a promotional platform for the publisher's paid daily newspapers.

(Jordan & Chisholm, 2005). However, incumbent publishers did not expect new competition to come from free newspapers (Bakker, 2002b).

Jordan and Chisholm (2005) suggest that, once publishers took notice, there were three ways for them to look at free dailies: Free dailies were considered, first, as “ordinary newspapers” differentiated by price; second, as “a different kind of newspaper” produced for a different target readership embracing new methods of production; or finally, as “something other than a newspaper”, catering to different media consumption habits and providing a different kind of value. In line with these different perceptions, predictions about the effects of free dailies varied from no effect, to the cannibalization of existing newspaper readership, or the attraction of new readers and positive complementary effects on the advertising market (Bakker, 2002a; Haller, 2009a).

However, clarifying what free dailies represented and what effect they were having was complicated by a lack of data. International associations and national institutions monitoring media usage and newspaper circulation were dominated by traditional newspapers and did not account for free dailies (Bakker, 2002b; Haller, 2009a). For example, the World Press Trends Reports did not include separate figures for free dailies published in Switzerland until the 2005 edition (WAN, 2005).

One factor that was likely to have shaped incumbent publishers’ expectations was past experiences with the advent of new media (Haller, 2009a). In the past, new media never completely replaced existing ones; yet, theoretically they possess the inherent potential to change incumbent media’s character as stated by Riepl’s law (Bakker, 2008a; Haller, 2009a). As one of the oldest types of media, newspapers had weathered the advent of radio and cinema in the 1920s, of television in the 1940s, and teletext in the 1970s (Betschon, 2007; Küng, 2008). Although this knowledge might normally have had a calming effect, most incumbent publisher chose to respond to the advent of free dailies actively (Haller, 2009a).

The basic strategic options that chapter A1.1 introduced based on the business model literature are also present in two publications that systematized publishers’ actual and potential responses to competition from free dailies (cf. Bakker, 2002a; Picard, 2001). When publishers refrain from adopting the free newspaper business model, they could either focus on their existing newspaper business model or block their national market. For those publishers who opt for *co-existence*, Picard (2001) suggests that incumbents improve on the differentiation of their paid newspaper and that they potentially try to attract the new readership of free dailies with new paid products other than free newspapers. The underlying rationale of this approach is that

free dailies target a base of hitherto non-readers that traditional newspapers were unable to reach. This approach does not feature prominently in media management publications on free newspapers.

Publishers who remained out of the free dailies business and *obstructed market entry* have received more attention. Obstructionist measures included, first, legal charges against publishers of free dailies for misuse of the term “newspaper” (Holznagel, 2006) and littering, and accusations against public transport providers of engaging in contracts with free newspaper publishers; second, the incumbent press prevented publishers from joining industry associations, advertising networks, and professional networks; and finally, incumbent publishers prevented the staff of free dailies from joining professional networks (Picard, 2001). Fierce legal battles were, for example, one part of the obstructionist actions employed by established German publishers between 1999 and 2001 that aimed at forcing SCHIBSTED ASA’s free daily 20 MINUTEN out of the German test-market Cologne (Röper, 2006; Vogel, 2001).

Incumbent publishers who chose to adopt the free newspaper business model could operate both models at once or completely migrate to the new business model. With respect to examining those publishers who did *play two games at once* (cf. Markides & Charitou, 2004), Bakker (2002a) and Picard (2001) focused most on projects that were developed for protectionist reasons – i.e., not for the sake of developing the new business model into a prosperous business. “Spoiler publications” (Bakker, 2002a) were, for example, launched in Oslo (i.e., AVIS1), Paris (i.e., A NOUS PARIS), Brussels (i.e., METRO BELGIUM), Vienna (i.e., U-EXPRESS) and Berlin (i.e., 15 UHR AKTUELL) before SCHIBSTED ASA or METRO INTERNATIONAL could enter those markets (Haller, 2009a). Other publications such as SP!TS in Amsterdam and KÖLN EXTRA in Cologne were launched in parallel with free dailies introduced by new entrants in order to defend the market against new entrants and make additional competition unattractive (Bakker, 2002a; Vogel, 2001).

Bakker (2002a) does not include incumbent market entry for the sake of developing the new business model into a prosperous business in its local market⁴⁴. However, he does acknowledge that a free daily intended to prevent market entry might eventually be extended and become profitable (Bakker, 2002a). METRO U.K. is likely the best example of this positive approach (cf. Picard, 2001) in the early 2000s (Bakker, 2002a).

⁴⁴ The foreign entrepreneurs SCHIBSTED ASA and METRO INTERNATIONAL did, of course, enter foreign markets to make a profit on the new business model (Bakker, 2002a).

The option of complete transformation from a traditional paid daily newspaper to a free daily is neither included in Bakker's (2002a) taxonomy nor in Picard's (2001) typology of strategic options. The SAN FRANCISCO EXAMINER provides perhaps a rare example of a traditional newspaper that was transformed into a free daily (Russ-Mohl, 2009).

Over the years, publishers and especially METRO INTERNATIONAL and SCHIBSTED ASA developed recipe-like concepts for their free business models. While the concepts realized differ to a certain degree (Haller, 2009a; Jordan & Chisholm, 2005) Table 28 contrasts an archetypal traditional paid daily newspaper with an archetypal free daily newspaper with a focus on the readers' market⁴⁵. According to Jordan and Chisholm (2005), the main lesson of this comparison is that some truth lies indeed in all three of the perspectives that incumbent publishers assumed. However, all of them fall short in capturing the scope of this innovation. Free newspapers are not just a new product but represent a business model innovation to the newspaper business (Casadesus-Masanell & Zhu, 2013).

Table 28: Business model of an archetypal paid versus free daily newspaper

Business model element	Paid daily newspaper	Free daily newspaper
<i>Value proposition</i>	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> ▪ Substantial publication (number of pp.) ▪ Broad sheet or tabloid partly in color ▪ Layout defined by content ▪ Exclusive reports, investigative journalism <p><i>Customer</i></p> <ul style="list-style-type: none"> ▪ Extensive readership definition ▪ Higher age and education groups <p><i>Customer Value</i></p> <ul style="list-style-type: none"> ▪ In-depth information and culture ▪ Education ▪ Diversity of opinions ▪ Community service 	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> ▪ Smaller number of pages ▪ Mostly tabloid in full color ▪ Content tailored to standardized layout ▪ General information, no opinions <p><i>Customer</i></p> <ul style="list-style-type: none"> ▪ Commuting working population in urban areas ▪ Younger readership than traditional newspapers <p><i>Customer Value</i></p> <ul style="list-style-type: none"> ▪ Entertainment and brief information ▪ Community features ▪ Distraction and retreat

(Table continued on next page)

⁴⁵ Differences in characteristics of these two business model archetypes with regard to the advertising market are less generic and more difficult to observe for the outside researcher. Though not included here, these aspects will matter for the case study analysis that follows.

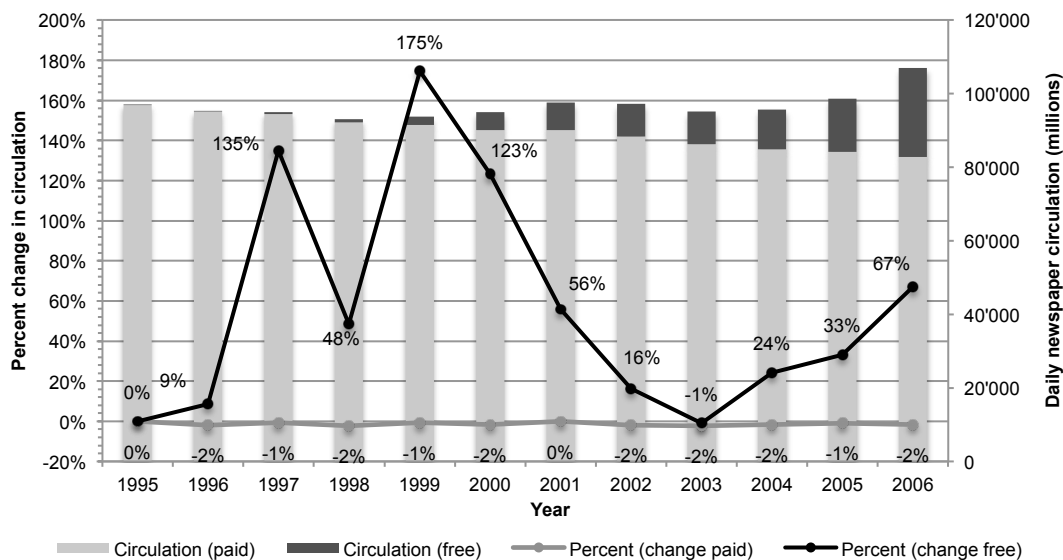
<i>Value creation</i>	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> ▪ High number of staff ▪ Experienced journalists ▪ Investigating original content ▪ Providing background and perspectives <p><i>Value network</i></p> <ul style="list-style-type: none"> ▪ Mostly integrated newspaper production ▪ Few activities outsourced <p><i>Coordination</i></p> <ul style="list-style-type: none"> ▪ By trend hierarchical 	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> ▪ Few young journalist and limited publishing staff ▪ Rewriting and synthesizing existing material ▪ Brevity and speed in tailoring content to standard ▪ Design of distribution networks <p><i>Value network</i></p> <ul style="list-style-type: none"> ▪ Lean operation orchestrating value network ▪ Investigation, print, and distribution outsourced <p><i>Coordination</i></p> <ul style="list-style-type: none"> ▪ By trend market-based
<i>Value communication and transfer</i>	<p><i>Communication</i></p> <ul style="list-style-type: none"> ▪ Costly advertising (incl. games, prizes, gifts, and special events) ▪ Mostly one-way communication from newspaper to readers <p><i>Transfer</i></p> <ul style="list-style-type: none"> ▪ Home delivery ▪ Single copy sales at news stands and other outlets 	<p><i>Communication</i></p> <ul style="list-style-type: none"> ▪ Fewer and more low cost advertising (point of distribution measures, guerilla marketing) ▪ More bi-directional communication with reader-generated content and community features <p><i>Transfer</i></p> <ul style="list-style-type: none"> ▪ Distribution racks at public transport hubs and public locations ▪ Some handout people, and rare home delivery
<i>Value capture</i>	<ul style="list-style-type: none"> ▪ Subscription fees ▪ Cover price of single copy sales ▪ Advertising: ad display, classifieds, and inserts 	<ul style="list-style-type: none"> ▪ Newspaper handed out to readers at <u>no</u> charge ▪ Advertising: ad display, classifieds, and inserts
<i>Value dissemination</i>	<ul style="list-style-type: none"> ▪ Mostly an issue handled within publishing groups owning newspapers 	<ul style="list-style-type: none"> ▪ Tailored to secure access to scarce resources in respective market (e.g., local print capacity or access to distribution locations)
<i>Value development</i>	<ul style="list-style-type: none"> ▪ Geographic expansion ▪ Sunday and online editions ▪ Line extensions 	<ul style="list-style-type: none"> ▪ Geographic expansion ▪ Online editions (often launched in parallel) ▪ Line extension (e.g., weekend magazine)

Source: Based on Bakker (2002a), Haas (2005), Haller (2009a) Jordan and Chisholm (2005) and Küng (2008) complemented with own research.

There is a limited number of studies that have analyzed the net effect of the market entries of free dailies in different national markets (Haas, 2005; Holznagel, 2006; Vogel, 2001). Piet Bakker, a media scholar specializing in research on free newspapers, analyzed the simultaneous development of free and paid daily newspapers between 1995 and 2007 with perhaps the most comprehensive datasets used to date (i.e., including both officially audited and complementary firm-reported figures) (Bakker, 2008a). Bakker (2008a) finds that in the 20 European countries in his sample the paid circulation decreased by 1 to 2 percent in circulation by average per year, while free dailies' circulation grew by 62 percent per year on average (cf. Figure 23). From the divergence of the overall trend curves and per country data, the author concludes that

on average free dailies did not primarily gain their readership by substituting for traditional newspapers (Bakker, 2008a).

Figure 23: Paid and free daily newspaper circulation in 20 European countries



Note: Countries included in northern (Sweden, Finland, Denmark, Iceland, and Norway), eastern (Czech Republic, Hungary, and Poland), middle (Netherlands, Switzerland, United Kingdom, Belgium, Austria, Germany, and Luxemburg), and southern Europe (Spain, Greece, Italy, France, and Portugal). Source: Based on Bakker (2008a).

Conclusions on the development and prospect of free dailies are mixed. The worldwide number of free dailies peaked in 2007 with close to 200 different titles (Riess, 2011). Meanwhile, the number of distributed copies has declined after a high in 2008, according to the World Press Trends report, which led to speculation about the viability of the free dailies (Haller, 2009b; Riess, 2011). However, Bakker (2010, 2011) points to an increase in the circulation number of free dailies from about 34 million in 2009 and 2010 to 36 million distributed copies. Publishers of the World Press Trends Report grounded their argument in a limited dataset that included a smaller sample of national markets (Bakker, 2011). Obtaining data on the development of free dailies for a broad sample of national markets remains an unresolved issue.

As for the individual markets, Bakker generally observes a consolidation, with one or two profitable free dailies remaining in most European countries (Bakker, 2010). After a rush to market⁴⁶ in the mid 2000s, the surviving market leaders are profiting from an increase in advertising rates because of the rather exclusive access they offer

⁴⁶ Bakker (2008b) reports about 25 of new entrants had left the market again by 2007/2008.

advertisers to their target readership (Bakker, 2010). In some markets, such as Switzerland, successful free newspapers have even become the most widely read newspaper on a regular basis (WAN, 1999-2011). In addition, most survivors seem to have built their success around the archetype of a free daily published for commuters in the morning, while most innovative deviations from this recipe (e.g., evening free daily, sports free daily, and home delivery free daily) (cf. Jordan & Chisholm, 2005) have failed (Bakker, 2008b, 2010).

3.3 Market setting at the time of the study

The newspaper business in the German-speaking part of Switzerland is an exemplary market for the development of the European paid and free newspapers both in terms of market conditions and development (Haller, 2009a). Yet, it is unique in terms of the intensity of market penetration by free dailies (Haller, 2009a). In particular, the market entry timing of SCHIBSTED ASA and METRO INTERNATIONAL led to the unique situation that the incumbent Swiss publishers were faced with the simultaneous market entry of two new rivals competing on the basis of a new business model (Bakker, 2002a; Haller, 2009a). Both Scandinavian free daily publishers had chosen Switzerland as a test market for central Europe and were directly competing in Switzerland for the first time (Haas, 2005; Haller, 2009a). However, while two free newspapers were on top of the lead table of newspaper readership in 2011, neither of them belonged to these new entrants.

The subsequent sections provide an industry-level summary of events that describe the development of the Swiss daily newspaper business between 1999 and 2011. Table 29 provides an upfront summary.

Table 29: Industry-level event timeline for free dailies in Switzerland

Date	Event description	Source
1999 December	Market launch of 20 MINUTEN in Zurich.	(Haller, 2009a)
2000 January	Market launch of METROPOL, published by MTG (predecessor of METRO INTERNATIONAL).	(Custer, 2008)
September	METROPOL launches regional editions in Basel, Berne and other cities.	(Haller, 2009a)
October	20 MINUTEN launches regional editions in Basel and Berne.	(Vogel, 2001)
2001 January	METROPOL is distributed in St. Gallen.	(Custer, 2008)
September	METROPOL closes down regional editions and focuses on Zurich.	(Haller, 2009a)
2002 February	METRO INTERNATIONAL withdraws METROPOL from the Swiss market.	(Custer, 2008)

(Table continued on next page)

2003	March	Incumbent publisher TAMEDIA acquires 49.5 percent of 20 MINUTEN.	(Haller, 2009a)
2005	January	TAMEDIA acquires the outstanding stake in 20 MINUTEN from SCHIBSTED ASA.	(Custer, 2008)
	February	For the first time, 20 MINUTEN is Switzerland's most popular newspaper in terms of readership according to officially audited figures.	(Haller, 2009a)
	June	20 MINUTEN is distributed in St. Gallen.	(Custer, 2008)
2006	May	Incumbent publisher RINGIER introduces HEUTE, a free daily evening newspaper in Basel, Berne, and Zurich.	(Custer, 2008)
	September	RINGIER introduces CASHDAILY, a free daily business newspaper.	(Haller, 2009a)
2007	September	Former member of Swiss 20 MINUTEN team launches (PUNKT).CH, a free daily newspaper with early morning home delivery in Zurich, Basel, Berne, Lucerne, and St. Gallen.	(Custer, 2008)
	December	Incumbent publishers TAMEDIA, ESPACE MEDIA, and BASLER ZEITUNG launch NEWS, a free daily morning newspaper distributed in Zurich, Basel, and Berne and the midland.	(Custer, 2008)
2008	June	RINGIER replaces HEUTE with BLICK AM ABEND.	(Custer, 2008)
	September	(PUNKT).CH changes distribution from home delivery to standard racks.	(Haller, 2009a)
2009	March	RINGIER withdraws CASHDAILY from the market; however, online news platform remains.	(Persönlich, 2009I)
	May	(PUNKT).CH exits the market.	(Persönlich, 2009I)
	August	BLICK AM ABEND is distributed in central and eastern Switzerland.	(Persönlich, 2009a)
	December	TAMEDIA withdraws NEWS from the market after ESPACE MEDIA and BASLER ZEITUNG sold their stakes and downsized the geographic distribution area to Zurich.	(Persönlich, 2009I)
2011	September	20 MINUTEN and BLICK AM ABEND are Switzerland's first and second most read newspapers with 1.379 million and 0.635 million readers on a daily basis.	(Persönlich, 2011e)

Note: Events only cover the development in the German-speaking part of Switzerland. Source: Own representation.

In April 1999, SCHIBSTED ASA started its European expansion and later⁴⁷ established the 20 MINUTEN HOLDING AG in Zurich to coordinate its European free dailies-related activities (Haller, 2009a; Vogel, 2001). A British venture capital group, APAX, and the Swiss A&A ACTIENBANK, two industry outsiders, partnered with SCHIBSTED ASA since resident incumbent publishers had turned down Norwegian offers to co-fund the free newspaper venture in Switzerland (Lüönd, 2008b; Wigdorovits, 2003). Zurich was an appealing market for four reasons (Wigdorovits, 2003): First, newspapers had a high reach within the population; second, the population was highly educated and affluent; third, public transport was highly frequented across socio-demographic groups and transport infrastructure was well developed; and finally, Zur-

⁴⁷ Authors diverge on the precise date. According to the Swiss commercial register, 20 MINUTEN HOLDING AG was established on March 6, 2000 and 20 MINUTEN HOLDING AG on August 30, 1999 (EJPD).

ich was one of the local markets with the highest per capita advertising expenditures in Europe. The MODERN TIMES GROUP (MTG), which published METRO, also recognized this and had trend scouts evaluate Zurich's potential among other European urban markets as early as 1998 (Lüönd, 2008b). However, because MTG was evaluating a large number of markets simultaneously, they only started taking action when SCHIBSTED ASA entered Switzerland (Lüönd, 2008b).

Schibsted ASA hired a small local team consisting of two layout people and a publishing manager to develop the pilot issue of 20 MINUTEN⁴⁸ for Zurich in secrecy (Manager10, 2011; Wigdorovits, 2003). The initial concept and business plan for Schibsted ASA's free daily in Zurich had been developed by McKinsey consultants (Manager10, 2011). The concept suggested a free daily focusing on national news coverage and targeting luxury goods advertisers as well as national and international image campaigns to counter an image that suggested "free equals worthless" (Manager10, 2011). However, SCHIBSTED ASA granted the local team the freedom to develop their own concept, which catered to the local readership taste – both in terms of content and design – and suggested including displays from a broad range of advertising clients as well as inserts and classifieds to broaden 20 MINUTEN's revenue potential (Manager10, 2011). The new Swedish entrant, METROPOL⁴⁹, meanwhile, relied on MTG's experience from previous internationalization and adopted their standard recipe of national news and advertising (Haller, 2009a; Wigdorovits, 2003).

20 MINUTEN AG had planned to launch its new newspaper title in February 2000, but when management learned that its rival, METROPOL, had acquired exclusive distribution rights at all commuter railway stations in the Zurich area, it sped up its market launch activities (Haller, 2009a; Wigdorovits, 2003). 20 MINUTEN was launched on December 13, 1999, one and a half months before METROPOL. To market its product, 20 MINUTEN employed handout personnel and had established a distribution contract with Zurich's local public transport network that would allow distribution racks at public transport stops in the Zurich area (Haller, 2009a; Wigdorovits, 2003).

In autumn 2000, both 20 MINUTEN and METROPOL expanded their market presence and launched local editions in additional cities in the German-speaking part of Switzerland in order to gain access to the cross-regional advertising market (Haller,

⁴⁸ The name 20 MINUTEN related to the average commuter time of 20 minutes, which had recently determined by the Swiss Federal Statistical Office (Frick, et al., 2004; Manager10, 2011).

⁴⁹ The METRO brand name belonged to a Swiss business group that would not allow MTG to use the brand (Lüönd, 2008b).

2009a). By then the 20 MINUTEN management had learned that their potential advertising clients needed a newspaper to cover at least Zurich, Basel, and Berne in order to be considered an attractive medium with an acceptable target audience penetration (Manager10, 2011). The approaches that the two entrants selected for their geographic expansion varied in line with their overall orientation (Haller, 2009a; Vogel, 2001): METROPOL, with its national focus, added a single, locally tailored page to their local editions for Basel, Berne, and other cities, while 20 MINUTEN established small local editorial teams in Basel and Berne to produce exclusive local news sections. In addition, 20 MINUTEN was able to establish exclusive distribution contracts with local public transport operators in Basel and Berne (Haller, 2009a).

Throughout this time, incumbent publishers did not remain inactive. TAMEDIA AG and NZZ GROUP repositioned their free weekly gazette TAGESANZEIGER DER STADT ZÜRICH in August 1999 (Haller, 2009a). The newspaper was rebranded as ZÜRICH-EXPRESS, distributed Monday through Friday by handout people and distribution racks, and the content seemed to be modeled closely after existing foreign free dailies (Ihle, 1999). Other early measures to obstruct market entry and a subsequent profitable development included a letter from TAMEDIA addressing 900 managers and politicians that requested a boycott of free dailies and measures to support the “respectable press” (Haller, 2009a, p. 108). Moreover, incumbent publishers refused to print the free dailies on their printing presses, which forced 20 MINUTEN to print its newspaper in nearby Austria (Consultant2, 2011; Wigdorovits, 2003). The publishers of BASLER ZEITUNG in Basel and ESPACE MEDIA in Berne repositioned their free dailies BASLERSTAB and BERNER BÄR to obstruct the geographic market expansion of 20 MINUTEN and METROPOL in late 2000 (Vogel, 2001). In addition, both the publishers of free dailies themselves as well as incumbents distributing “spoiler publications” (Bakker, 2002a) fought fierce legal battles over exclusive distribution contracts granted by public transport providers (Manager10, 2011; Vogel, 2001). Overall, however, incumbent publishers changed their existing newspapers very little in response to the advent of free dailies (Haller, 2009a).

METROPOL canceled its local editions in September 2001 to focus on Zurich; however, just five months later, in February 2002, METRO INTERNATIONAL abandoned the Swiss market (Custer, 2008; Haller, 2009a). Media experts interviewed by Haller (2009a) identified three main reasons why METROPOL fell short of METRO INTERNATIONAL’s expectations: first, the obstruction measures of incumbent publishers; second, its sole reliance on national advertising campaigns despite the fragmented Swiss

market landscape; and third, the lower level of journalistic quality delivered despite a more respectable and higher quality appeal and a lack of competence among its local journalists. At the same time, 20 MINUTEN had developed local journalistic competence, a content mix that was appealing to a young and affluent readership that other media struggled to reach, as well a media cross-over concept integrating the free daily with its internet portal, which was building a community around the newspaper (Haller, 2009a; Wigdorovits, 2003).

Notwithstanding the market exit of the Swedish rival, 20 MINUTEN did not remain unchallenged as the leading free daily. Incumbent publisher TAMEDIA announced its interest in a stake in 20 MINUTEN AG in autumn 2002 and combined it with a threat to launch EXPRESS, a free newspaper of its own in Zurich and Berne, in case 20 MINUTEN AG were to turn their offer down. By then, 20 MINUTEN had reached break-even on a monthly level and was about to become profitable (Manager10, 2011).

However, SCHIBSTED ASA had already invested more than originally intended because of the geographic market expansion in 2000. Warding off EXPRESS would have cost another five to ten million Swiss francs (Haller, 2009a; Manager10, 2011). SCHIBSTED ASA and the other owners finally accepted a two-year earn-out deal⁵⁰ for three reasons: First, TAMEDIA's threat to launch EXPRESS was very realistic. A complete concept was established and an editorial team had already started producing pilot issues for market launch (Editor-in-Chief4, 2011; Lüönd, 2008b). Second, SCHIBSTED ASA incurred a considerable loss from abandoned operations in Germany (Vogel, 2001). Finally, SCHIBSTED ASA intended to invest the profit resulting from the earn-out agreement in Spanish 20 MINUTOS (Manager10, 2011). As a consequence of its stake in 20 MINUTEN, TAMEDIA canceled its EXPRESS daily newspaper on the evening before market launch.

In January 2005, TAMEDIA acquired full control of 20 MINUTEN (Custer, 2008; Lüönd, 2008b). 20 MINUTEN remained a separate unit within TAMEDIA even though the free daily moved into new offices at TAMEDIA headquarters the same year (Manager9, 2011; Manager10, 2011). Due to its successful growth and geographic expansion, 20 MINUTEN had become the most popular Swiss newspaper in terms of

⁵⁰ According to estimates, Schibsted ASA and its co-financiers had expected an initial investment of CHF 20 to 25 million to break even but subsequently invested approximately CHF 75 to 85 million while TAMEDIA might have paid between CHF 100 and 130 million for a newspaper that is highly successful and profitable today (Biswas, 2005; Consultant2, 2011; Lüönd, 2008b; Manager10, 2011; Persönlich, 2004d).

readership figures (782,000 readers for a circulation of 329,000 copies) by February 2005.

RINGIER, publisher of the boulevard newspaper BLICK, which had lost most of its readers since the launch of free dailies in 1999, introduced two free newspapers of its own in 2006. In May, RINGIER introduced the first free daily evening newspaper, HEUTE (CUSTER, 2008). HEUTE did not directly compete with 20 MINUTEN but instead targeted commuters on their way home from work and school, providing them with news, sports, and a service section (Haller, 2009a). The seemingly small deviation of HEUTE's distribution timing and market positioning in comparison to the well-established free daily business model forced RINGIER to reinvent and reconsider large portions of HEUTE's business model, as the case study analysis will demonstrate. Additionally, the evening newspaper concept was met with industry skepticism since the German-speaking part of Switzerland had not seen a successful evening newspaper since the late 1970s (Persönlich, 2006c).

While HEUTE, like 20 MINUTEN, targeted a general interest readership CASHDAILY focused on a special interest audience. The free daily business newspaper, launched in September 2006, complemented CASH, a paid weekly business newspaper that had been losing readership and advertising clients since the early 2000s, and a web-platform tailored for mobile use (Custer, 2008; Haller, 2009a). CASHDAILY was also an exception in terms of newspaper distribution. About 60,000 newspaper copies were distributed from racks at 1,150 newsagents and 27,000 copies were directly delivered to the workplace of registered readers (Haller, 2009a).

Besides RINGIER, a former member of the 20 MINUTEN launch team and a group of publishers and investors had also identified sufficient economic potential to position another free daily alongside 20 MINUTEN (Persönlich, 2007h). Their company, MEDIA PUNKT AG, launched the free daily (PUNKT).CH in September 2007 in Zurich, Basel, Berne, Lucerne, and St. Gallen (Custer, 2008). MEDIA PUNKT AG's concept defined (PUNKT).CH as a free daily of high journalistic quality targeting an urban readership and positioned more up market than 20 MINUTEN (Haller, 2009a). About 60 percent of distributed copies were home delivered by a subsidy of the Swiss postal service to distribution racks in apartment buildings and office buildings, while handout people and racks at public transport stops distributed the remaining 40 percent (Haller, 2009a). The assumption behind the home delivery service was that if commuters picked up their newspaper for their commute at home, they would not take a copy of 20 MINUTEN at the train station (Haller, 2009a).

TAMEDIA's response to this direct competition was twofold (Haller, 2009a; Manager9, 2011): First, 20 MINUTEN increased its newspaper circulation and moderately overhauled its content and layout, and second, TAMEDIA established a new publishing company in October 2007, NP NEWS PRINT AG, in collaboration with the publishers of BERNER ZEITUNG and BASLER ZEITUNG. The purpose of this new company was to launch yet another free daily named NEWS that would obstruct⁵¹ (PUNKT).CH's business in Zurich, Basel, and Berne (Haller, 2009a). NEWS was launched in those three local markets in December 2007 with a concept that positioned the new free daily between 20 MINUTEN and (PUNKT).CH and mainly provided a condensed overview of news published in TAGES ANZEIGER, BASLER ZEITUNG, and BERNER ZEITUNG (Custer, 2008; Haller, 2009a).

In light of surging competition, RINGIER relaunched its boulevard newspaper, BLICK, in March 2008 and three months later replaced its free daily, HEUTE, with BLICK AM ABEND (Custer, 2008; Haller, 2009a). The new BLICK AM ABEND retained successful elements of HEUTE but displayed more affinity toward BLICK⁵² and extended its target readership definition, which made combined advertisements in the paid and free newspaper more appealing (Haller, 2009a).

Startup (PUNKT).CH was meanwhile experiencing fierce competition for local advertising clients and trouble with its home delivery service (Haller, 2009a). MEDIA PUNKT AG therefore decided to reposition (PUNKT).CH as a me-too clone of 20 MINUTEN, relying on standard distribution and content (Persönlich, 2008g, 2008o).

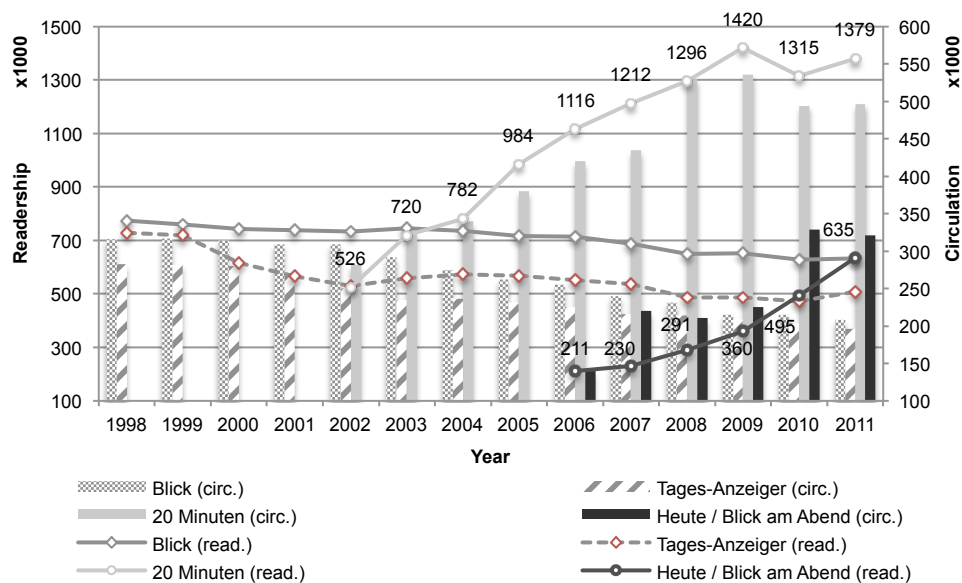
2009 was a year of market contraction, both in terms of the demand for advertising space in newspapers and the number of free dailies published (WAN, 1999-2011). The first free daily to leave the market was CASHDAILY in March 2009 (Persönlich, 2009l). The weekly business newspaper CASH had already been withdrawn from the market in 2007 (Haller, 2009a), and beginning in spring 2009, CASH remained only as an online platform for business and financial news (Persönlich, 2009l). The second free daily to exit the market was (PUNKT).CH in May 2009 (Persönlich, 2009l). Since its relaunch in 2008, (PUNKT).CH had nearly managed to double its readership, but it lacked sufficient advertising revenues (Persönlich, 2009h). Finally, TAMEDIA ceased publishing NEWS in December 2009 (Persönlich, 2009l).

⁵¹ TAMEDIA has always denied publishing NEWS in response to (PUNKT).CH (Stadler, 2009).

⁵² BLICK's role in the case study as well as its business model will be detailed in chapter B5 (p. 167).

The only free daily that did expand its operations in 2009 was BLICK AM ABEND, which introduced new offices and local editions in central and eastern Switzerland (Persönlich, 2009a). Both the market expansion and the market exit of three out of five competitors benefited BLICK AM ABEND. By September 2011, BLICK AM ABEND had overtaken BLICK in terms of officially audited readership and become Switzerland's second most read newspaper, with 635,000 readers. 20 MINUTEN remained number one, with 1.379 million readers for the same auditing period (Persönlich, 2011e) (cf. Figure 24). The extraordinary growth of both free titles cannibalized in part incumbent newspapers and attracted many new and double-readers (Haller, 2009a; Masika, 2010).

Figure 24: Top two paid and free daily newspaper readership and circulation



Note: Figures for Switzerland from 1998 to 2011. Included are 2011's top two paid-for and free daily newspapers. Source: Based on WAN World Press Trends (WAN, 1999-2011), WEMF (2010, 2011) and Haas (2005).

3.4 Industry background conclusions

In conclusion, the advent of the daily free newspapers represented a disruption to incumbent newspaper publishers in Switzerland. The two Scandinavian entrants, SCHIBSTED ASA and MTG/METRO INTERNATIONAL, introduced two similar free daily newspaper business models to the German-speaking part of Switzerland in late 1999 and 2000 (Custer, 2008) that found favorable market conditions, particularly in terms of demographic trends (Haller, 2009a).

The new entrants' business models emphasized different aspects of newspaper production – particularly cost and distribution – and underperformed on product dimensions that are of vital importance to a traditional quality newspaper such as the investigation of original content and its contribution to the democratic discourse (Bakker, 2002a; Haller, 2009a; Jordan & Chisholm, 2005; Vogel, 2001). Especially 20 MINUTEN grew quickly to become a commercial success and Switzerland's most read newspaper (Haller, 2009a; Persönlich, 2011e). However, the business model of free dailies did not devalue the prospect of traditional daily newspapers' business models on a large scale (Bakker, 2008a), as publications classifying free daily newspapers as a disruptive innovation in Christensen's sense (cf. Christensen, 2003) would suggest (e.g., Wigdorovits, 2003). Instead, the development of free dailies closely resembles Markides' (2006) predictions on the development of new business models disrupting an established market.

The market entry of free dailies in Switzerland presented incumbent publishers with the challenge to make sense of a new development and act upon it. The two leading publishing houses, RINGIER and TAMEDIA, chose different paths of action (Haller, 2009a).

Initially, TAMEDIA repositioned its weekly free newspaper to ward off the Scandinavian entrants and asked managers and politicians for a boycott of free press (Haller, 2009a). However, later in 2003, it acquired the one new entrant that had successfully captured the market after the first 18 months (i.e., 20 MINUTEN) and scaled it up successfully as an independent business within the media group (Haller, 2009a). After the takeover, TAMEDIA consequently rejuvenated 20 MINUTEN and established French and Italian language editions in Switzerland (Haller, 2009a; Persönlich, 2009d). TAMEDIA developed two free newspaper concepts of its own along the way (Persönlich, 2009I): EXPRESS, the free daily concept that threatened SCHIBSTED ASA in late 2002 and early 2003 and NEWS, the free daily marketed from late 2007 to late 2009.

In contrast, RINGIER remained rather passive during the first several years of free daily market entry. Even though the publishing house denied 20 MINUTEN AG a contract to print its newspaper (Wigdorovits, 2003) and tweaked its paid boulevard newspaper over the years (Haller, 2009a), RINGIER only became a serious competitor in the free daily newspaper business in May 2006. It emphasized innovation and developed a free daily evening newspaper – even before THE LONDON PAPER and LONDON LITE

were introduced in London⁵³ (Haller, 2009a), and, several months later, launched its first free daily business newspaper, CASHDAILY (Haller, 2009a).

Understanding what was required of incumbents to develop a new business model alongside their well-established traditional newspaper business will be the focus of the subsequent empirical section of this dissertation.

⁵³ The EVENING STANDARD, which existed as an afternoon paid daily, only became free in late 2009 (BBC, 2009).

B Case analysis: a process model of business model innovation

4 Case study methodology

The study presented in part B of this dissertation uses a case study design as part of a process approach to study how incumbent organizations innovate their business model. Chapter A1.4.2 demonstrated that an intensive case study design fits the present state of knowledge of business model innovation as well as the underlying philosophical assumptions and the intention to open the proverbial black box of this innovation process type.

Chapter B4 details the case-study research design and the methodological procedures used as part of this design (Fitzgerald & Dopson, 2009; Yin, 2003) to identify the generic pattern of the innovation process as well as the generic mechanisms that co-determine the innovation of the business model.

4.1 Case study design and case selection

Case study research, unlike other research designs, lacks codified and standardized procedures (Gibbert & Ruigrok, 2010; Yin, 2003) and encompasses a multiplicity of methods to gather and analyze data (Fitzgerald & Dopson, 2009). This makes methodological transparency all the more important.

Yin (2003) and Gerring (2004, 2007) provide two dominant templates that categorize different case-study designs along three dimension: the number of cases (i.e., one or several), spatial variation (i.e., comparing different units within and/or the same units across cases), and temporal variation (i.e., cross-sectional point in time analysis or tracking over time). Figure 25 presents five⁵⁴ potential case study designs along these three dimensions.

⁵⁴ While Yin (2003) argues that some single cases may be rare and truly exceptional enough to justify documentation with neither temporal nor spatial variation, Gerring (2004) maintains that the observation of cause and effect require some form of variation in the portrayed dimension and that the single case without variation is therefore logically impossible.

Figure 25: Typology of case-study research designs

		Spatial variation		
		None	Within-case	Cross-case and within-case
Temporal variation	Cross-sectional	(logically impossible)	Single-case study (synchronic)	Comparative method
	Longitudinal	Single-case study (diachronic)	Single-case study (synchronic and diachronic)	Comparative historical
		Single case		Several cases

Source: Adapted from Gerring (2007, p. 28).

The study presented in chapter B5.2 reports a synchronic and diachronic *single case study*⁵⁵ (cf. cell highlighted in grey in Figure 25) of an incumbent newspaper publishing organization that experienced a disruption to its traditional business model that was brought to its industry by new market entrants. The incumbent publisher responded to this new situation with business model innovation. The *case site* selected is RINGIER AG, an internationally operating Swiss media company whose traditional newspaper business is focused on Switzerland. The *case*, i.e. the “spatially delimited phenomenon observed [...] over some period of time” (Gerring, 2007, p. 19), is a distinct business model innovation project run by the incumbent publisher. The case study builds on both spatial and temporal *variation*: RINGIER developed two business model initiatives that established a free daily evening newspaper, which the study tracks over a time period of 12 years, from 1999 to 2011.

Sampling RINGIER as a case site on theoretical grounds (cf. Eisenhardt & Graebner, 2007) is connected to a tradeoff between comparability and uniqueness, which matters for the outcome of this study (Tsoukas, 2009). In terms of *comparability* to “a larg[er] class of (similar) units” (Gerring, 2004, p. 342), RINGIER’s experience represents the class of incumbent organizations adapting a second business model alongside their existing one by means of innovation and with the intention to develop the new business model into a competitive venture⁵⁶. Hence, it matches the phenomenon at the core of this dissertation. Its comparability thereby derives from the

⁵⁵ Langley and colleagues (2013) maintain that the number of temporal observations is at least equally important to the number of case sites studied.

⁵⁶ This sets innovating incumbents apart from those who simply adopt a new business model to obstruct or block a market (e.g., Bakker, 2002a; Picard, 2001).

acknowledgement of the phenomenon as an instance of business model innovation in the business model literature (e.g., Casadesus-Masanell & Ricart, 2010b; Casadesus-Masanell & Zhu, 2013), the use of generative mechanisms as explanatory constructs (Pajunen, 2008; Tsoukas, 2009), as well as RINGIER's incumbent characteristics (e.g., Ansari & Krop, 2012).

While the above arguments confirm the case study's comparability, there are also some *unique* features inherent in the selected case and context that allow extending our understanding of business model innovation (Tsoukas, 2009). First, RINGIER is one of the rare incumbent exceptions that managed to introduce a new business model of its own alongside its existing business and succeeded (Markides, 2008). Second, the case site allows unprecedented access for the study of business model innovation from a process sociological perspective (Gopalakrishnan & Damanpour, 1997) at an organizational level in an incumbent context (Sosna, et al., 2010). This enables a more comprehensive view of business model innovation in terms of innovation process patterns from initial idea to market exit (Abbott, 1990; Van de Ven, et al., 2008) and the elaboration of the underlying generic mechanisms (Ackroyd, 2009; Pajunen, 2008). Third, it is an example of a business model innovation that is technology-enabled but not first and foremost technology-based⁵⁷ (Chesbrough, 2007; Sosna, et al., 2010). Finally, the case study's industry context from 1999 to 2011 represents an interesting setting. The Swiss newspaper business in the German-speaking market experienced a relatively sudden disruption at the beginning, when two new entrants simultaneously started competing on the basis of two similar yet differently positioned business models (Haller, 2009a; Vogel, 2001). The traditional newspapers of the top two publishing companies, RINGIER and TAMEDIA, suffered the most, but only RINGIER engaged in intense innovation efforts, while TAMEDIA chose to acquire the thriving new entrant 20 MINUTEN and developed it as a stand-alone business (Haller, 2009a). Although 20 MINUTEN has become financially successful and grown to become Switzerland's number one newspaper in terms of readership (Haller, 2009a; Persönlich, 2011e), this not predominantly technology-based business model disruption did not replace the existing business model at a scale as large as Christensen and Raynor's (2003) conception of disruptive innovation would have suggested (cf. Markides, 2006).

⁵⁷ On the supply side of the business model, technology powers the desktop publishing systems and templates that enable lean and cost-effective editorial and publishing processes (Schantin, 2010; Wigdorovits, 2003). On the demand side, technology influences the user/reader behavior in terms of media consumption across different channels and devices as well as the interaction between readers and journalists (Iordan & Chisholm, 2005). However, the main driver of this new business model in newspaper publishing was an insight into commuter needs (Bakker, 2002a; Haller, 2009a; Lüönd, 2008b).

4.2 Definition of a priori concepts

Existing concepts from research on business models and on innovation process in general have informed the data collection and the analytical procedure. While an open mind is important to intensive case-study designs, the use of a priori concepts allows focusing data collection and reducing the risk of “death by data asphyxiation” (Pettigrew, 1990, p. 281). Moreover, it supports building the connection between research question, case study, and the existing literature (Eisenhardt, 1989; Gephart, 2004; Weick, 2007).

The study of the business model innovation process presented in chapter B5.2 builds on the value-based business model concept (cf. chapter A2.2) and a set of five concepts that refer to the innovation process (Van de Ven, 1986; Van de Ven & Angle, 2000): ideas, people, transactions, context, and outcomes (cf. chapters A2.3.3 and A2.4.3). Table 30 summarizes the definition of these a priori concepts.

Table 30: A priori concepts

Concept	Definition	Source
Idea	New ideas are the outcome of invention. They are classified as an innovation if they are deemed innovative by the people involved in their development. Note that the new idea developed and implemented for this study is the business model concept.	(Van de Ven & Angle, 2000)
People	Individuals who contribute their productive and creative energy as well as their knowledge and mental models to the creation and implementation of new ideas.	(Van de Ven & Angle, 2000)
Transaction	Formal or informal, hierarchical or collegial, individual-, group or institutional-level relationships that people engage in as part of the innovation effort.	(Van de Ven & Angle, 2000)
Context	The intra-organizational and external institutional setting in which people innovate and share ideas.	(Van de Ven & Angle, 2000)
Outcome	Tangible results and subjective assessment of the success or failure of an innovation project by people involved in the innovation project.	(Poole, et al., 2000; Van de Ven & Angle, 2000)
Business model	A business model (1.) determines what an organization offers that is of value to the customer (i.e., the value proposition), (2.) how it creates value within a value network, (3.) how it communicates and transfers this value to customers, (4.) how it captures the created value in the form of revenues and profit, (5.) how the value is disseminated within the organization and among stakeholders, and finally, (6.) how the value is developed to ensure sustainable value creation in the future.	(Bieger & Reinhold, 2011)

Source: Own representation based on sources indicated in the table.

4.3 Data collection and sources of evidence

Qualitative and quantitative data was collected for a twelve-year retrospective period from 1999 to 2011. The study of the business model innovation process draws on multiple sources of evidence to address biases connected to retrospective studies and tri-

angulate data (Bennett & Elman, 2006; Eisenhardt, 1989): interviews, non-participant observation, archival data.

In total, I conducted 32 *interviews* as part of this study. The first nine interviews were exploratory in nature and targeted media management scholars familiar with the Swiss newspaper business and specialized in free newspapers, Swiss media industry consultants, and consultants with an academic background well versed in matters of business model innovation identified by their doctoral dissertations. The purpose of these exploratory interviews was to probe five points of interest: first, challenges of the business model of Swiss daily newspapers since the 1990s and the role of free newspapers; second, organizational responses to deal with these challenges and companies that responded in particularly innovative ways according to interviewees' perspectives; third, the development of free daily newspapers in Europe in general and in Switzerland in particular; fourth, the business model of free newspapers; and finally, critical aspects of business model innovation and business model innovation in the media industry. The exploratory interviews, four of which were conducted on the telephone and five in person, were recorded and resulted in 79 pages of transcript. They qualitatively confirmed that free newspapers indeed represent a new business model introduced to the Swiss newspaper business, that Switzerland is an exemplary market to study the incumbent response to free daily newspapers, and that the case selected responded in an innovative way.

The remaining 23 in-depth interviews were conducted with key informants involved in and knowledgeable about the business model innovation efforts of RINGIER and the incumbent's main rival free newspaper, 20 MINUTEN. Two of the semi-structured in-depth interviews (Punch, 2005) were conducted on the telephone upon request of the interviewees, while the remaining 21 interviews were conducted on site and in person. The five interviews covering 20 MINUTEN and the 18 interviews addressing RINGIER's free newspapers included all individuals occupying the position as innovation unit manager, editor-in-chief, and their direct superiors. Interview recordings with consent of the interviewees and handwritten notes resulted in 306 pages of interviewee-approved transcript.

In addition to the interviews, non-participant *observational visits* were paid to the main newsrooms of the surviving free newspapers BLICK AM ABEND and 20 MINUTEN in 2010 and 2011. The visits allowed me to develop an understanding of the particularities of newspaper production for the two titles as well as to appreciate and contextualize some company-specific vocabulary and explanations made by interviewees.

Finally, I collected *archival data* including both public and corporate documents. Public documents included newspaper articles, articles and RSS-feeds from industry magazines, industry reports and databases (incl. WAN, IFRA, and other), scholarly publications (incl. articles, theses, and books), a blog dedicated to the development of free newspapers by a Dutch scholar, a blog by one of the innovation project managers documenting how he experienced the launch of one of RINGIER's free newspapers at the time of the market launch, as well as publicly available corporate material (incl. websites, annual reports, and corporate history accounts). In addition, interviewees made a range of corporate documents available that detail project milestones and document the development of the free newspaper concepts at RINGIER and for the early years of 20 MINUTEN – i.e., before it was acquired by TAMEDIA.

Data collection for the intensive case study followed five steps: first, preliminary talks were held with key informants at RINGIER and 20 MINUTEN AG to identify potential interviewees and negotiate access to corporate information⁵⁸. These talks resulted in an initial list of interview candidates that was subsequently complemented based on interviewees' recommendations. Even though 20 MINUTEN does not represent a case of incumbent innovation such as this study defines, data was collected on the evolution of this free daily for two reasons: First, at the beginning of this study it was not obvious from an outside perspective to what extent SCHIBSTED ASA influenced 20 MINUTEN's formation. Furthermore, it was unclear to what extent TAMEDIA innovated the free daily newspaper after its acquisition. Second, since 20 MINUTEN is the only surviving original free daily newspaper market entrant, following its evolution allowed retracing the market development of free dailies in Switzerland. Therefore, interviews with key informants at 20 MINUTEN AG provided a rich context and an outside-in perspective on business model innovation at RINGIER.

Secondly, I conducted an initial analysis of publicly available articles and data in industry magazines, newspapers, and scholarly publications to construct a two-page timeline listing events that potentially mattered to the innovation process (e.g., date of market entry and exit, introduction of new features and changes to newspapers, announcement pertaining to collaborations, change in staffing, and reported results). These timelines served interview partners as aids to organize and remember the particular innovation processes in the semi-structured interviews. The timelines were subsequently amended and corrected based on interviewees' comments.

⁵⁸ For the terms of the reciprocal arrangement, refer to the section on the role of the researcher in Chapter A1.4.2.

Third, I conducted 13 semi-structured, in-depth interviews at RINGIER to build a case history of the business model innovation process. Before the interviews, interviewees received an introduction to the research project and a set of guiding questions. The questions covered (a.) the interviewee's role in the development of the free newspapers, (b.) the development of the free newspapers (incl. origin of the idea, project milestones, key actors, and major changes to the concept), (c.) the transactions and co-operations necessary, (d.) the context's influence on the project, (e.) the outcome criteria and measures used, and (f.) the biggest challenges and problems along the process as well as what the interviewee would change and leave untouched if s/he could start anew. In the interview situation, open questions regarding the interviewee's role and the development of free newspaper allowed interviewees to tell their narrative of the innovation process, while the remaining questions were used to fill gaps in the narrative from the perspective of a priori concepts and the timelines helped temporally locate the narrative. Notes were written by hand during every interview and were complemented with impressions and thoughts on the interview within two hours after every meeting. Apart from rare technical difficulties, the interviews were recorded for transcription with interviewees' consent.

Interviewees included present and past organizational members who influenced the course of the innovation project. Interviewees held key positions over the twelve-year period on different organizational levels, ranging from journalist and sales manager to editor-in-chief, CEO and members of the group executive board. Interviewees reviewed, formally corrected where necessary, and approved transcripts from the first round of interviews. A similar questionnaire and the same interviewing procedure were used for the five interviews with present and former members of 20 MINUTEN AG and a key account manager of SWISS FEDERAL RAILWAYS in charge of negotiations on one of free newspaper's key resources: distribution locations at public transport stations.

Fourth, I then returned to archival sources to complement the information gained from interviews and make sure that I did not miss aspects of the innovation process that interviewees might not have remembered. Both the information from interviews and archival search was subsequently used to build an event narrative of the business model innovation process for free daily evening newspapers at RINGIER (cf. chapter B4.4).

Finally, open questions resulting from the initial analysis of event narratives were clarified with first round RINGIER interviewees via email questionnaires. Furthermore,

additional data that addressed missing information was collected from interviews in a second round with four additional key informants who had not previously been available for interviews. As before, the interviewees received an introduction to the research project. However, this time the guiding questions focused on tensions between paid and free newspapers at RINGIER for the relevant period and addressed missing information regarding details of the innovation process that the interviewees might fill in because of their role and function between 1999 and 2011.

The subsequent chapter details how the data from public and corporate archives as well as interviews and observations were organized as the overall data set that informs this study.

4.4 Data coding and analysis

There are no codified analytical procedures that uncover mechanisms and generate theory per se (Langley, 1999; Pajunen, 2008). However, scholars specializing in process research (Langley, 1999; Poole, et al., 2000) and comparative historical methodology (Abbott, 1990, 1995; Griffin, 1993, 2007; Mahoney, 2004) have suggested methodological procedures to support the researcher's discovery process and sense-making (Langley, 1999; Pajunen, 2008).

This chapter describes the three analytical phases undertaken to derive the process model of business model innovation from a single case study. In short, the procedure is grounded in an analysis of the sequence pattern of events that constitute the business model innovation process (Abbott, 1990). It preserves the innovation process as a whole sequence and allows for both recurrent and simultaneous events (Abbott, 1995). The analytical procedure models the event structure of the innovation process following the logic of event structure analysis (abbr. ESA) encoded in David Heise's (1989) ETHNO system, which has been applied in management and organization studies (e.g., Durand & Vaara, 2009; Pajunen, 2005; Stevenson & Greenberg, 1998).

4.4.1 Phase 1: From raw data to chronological narrative

In the beginning, I organized all digitally available public and corporate documents collected from an archival search and interview transcripts (i.e., in total 1505 documents) in a case study database in qualitative data analysis software MAXQDA10 (Lewins & Silver, 2007). The collected physical and digital data (i.e., the data set of this study) subsequently served to produce a coherent *chronological narrative* that recounted the business model innovation process at RINGIER in chronological and spa-

tial order (Abbott, 1990; Griffin, 1993). This narrative, produced as step 1, is the necessary input to the subsequent event structure analysis (Griffin, 1993; Heise, 1989).

I used a two-step coding procedure to build the chronological narrative from raw data. First, I analyzed the data set for incidents that indicated a change in the a priori concepts (i.e., people, ideas, transactions, context, and outcomes) and major cyclical activities (Poole, et al., 2000). Text passages that provided evidence of such incidents were assigned codes from a provisional coding scheme in MAXQDA10 (Saldana, 2009). The coding scheme (cf. Table 57, p. 284) was devised on the basis of a codebook that had been developed for one of the MIRP case studies (Poole, et al., 2000). Each incident code indicates two things: first, what a priori concept changes, and second, the direction of change (i.e., expansion, contraction, continuation, or modification of the concept). To establish the temporal order of incidents, I organized them in a relational database in FILEMAKER PRO 11⁵⁹. Building on recommendations by Poole and colleagues (2000) as well as Grazman and Van de Ven (2000), every incident entry in the database consists of ten elements (cf. Table 31; Figure 34, p. 280): (1.) a short incident description (i.e., title), (2.) an identification number, (3.) an extended description based on the coded text passage in the data set, (4.) a reference to the sources from which the incident was derived, (5.) a variable indicating the coding perspective (i.e., BLICK AM ABEND/HEUTE, 20 MINUTEN, or background information), (6.) the provisional coding, (7.) the date of occurrence, (8.) a dedicated variable indicating for each incident whether the date derived from the data set was precise down to the level of a day, a month or a year⁶⁰, (9.) a variable specifying the newspapers that the incident referred to, and (10.) a field for open observations and comments.

In the second coding step, I used the database of 638 coded incidents to derive a list of 264 chronologically ordered events. Events are higher-level theoretically meaningful concepts of interest that constitute the chronological narrative in a temporally and spatially ordered sequence (Abbott, 1990; Pentland, 1999; Poole, et al., 2000). The information provided by different incidents was reconciled and organized in the same database as the events. The elements defining event entries in the database deviated from those of incidents on some points (cf. Figure 35, p. 281): First, events are not

⁵⁹ The big three software packages to analyze qualitative data ATLAS.TI, MAXQDA, and NVIVO provided neither the means to create a database of incidents and events nor to organize them by variables such as a date at the time of this study.

⁶⁰ As a the database software demanded full date entry, incidents and events determined to the level of month were assigned to the 15th day of that month; incidents and events determined to the level of year were assigned to 15th June of that year.

specified to a single point in time but have a start and end date. Second, the description of events is based on incident descriptions and structured along the three-step causal conditions, actions, and consequences. Cule and Robey (2004) used this logical chain derived from Orlikowski (1993) for their narrative strategy for sensemaking from process data (cf. Langley, 1999). Though not always fully applicable, it facilitated locating specific events in the overall sequence of the innovation process. Third, the sources of events are incidents rather than documents or transcripts. Fourth, besides the codes referring to newspapers, and a priori concepts, event entries were linked to the actor type (cf. Table 58, p. 286) and organization the event description referred to, the activity the actor engaged in (cf. Table 58, p. 286), as well as the incumbent perspective, which was always RINGIER for this study. Table 31 lists the elements that define an incident or an event database entry respectively.

Table 31: Elements of an incident and event database entry

Element	Incident entry	Event entry	ETHNO-event entry
<i>Identification number</i>	Unique identifier	Unique identifier	Unique identifier
<i>Date</i>	Single date / point in time	Start and end date	Single time index
<i>Date qualifier</i>	Precise (document or interview) Estimate (day or month)	Precise (document or interview) Estimate (day or month)	-
<i>Title</i>	Short description of incident	Short description of event	Short description (subject and action, max. 25 characters)
<i>Description</i>	Description of incident based on original text passage in raw data. <i>No specific structure for description.</i>	Description of event based on incident description. <i>Targeted structure for description: Causal conditions, actions, and consequences (cf. Cule & Robey, 2004).</i>	Description of ETHNO-event based on event description.

(Table continued on next page)

Source	Original document or transcript.	Incidents the event is based on.	Event the ETHNO-event is based on.
<i>Coding</i>	Coding perspective (BLICK AM ABEND, 20 MINUTEN, or Background) Provisional coding for a priori concepts Newspaper the incident refers to	Incumbent case (Ringier, Tamedia) Organization Actor type Activity Provisional coding for a priori concepts Newspaper the event refers to	Agent Act Object (entity changing as result of action) Instrument (entity used to process the object) Alignment (part of object where action is focused) Setting Product (entity or state change produced) Beneficiary
<i>Comments</i>	Observations/ comments by coder Observations/ comments by source	Observation by researcher	-

Source: Own representation with elements informed by Poole and colleagues (2000) and Heise and Lewis (1988).

The result of this two-step coding procedure was a chronological narrative based on a chronologically ordered event database. Three key informants double-checked the chronological narrative to verify the result of this first analytical step.

4.4.2 Phase 2: From chronological narrative to event structure

In the second phase, I transformed the chronological narrative into a series of causal event ties following the event structure analysis procedures encoded in ETHNO computer software (Heise, 1989). ETHNO was developed for research in historical sociology (Griffin, 1993; Heise, 1989) but its use has also been advocated for management and organization studies (e.g., Pajunen, 2005, 2008). In addition, to the author's best knowledge, ETHNO is the only available software to support a reproducible interpretive analysis of a longitudinal data set, which systematically considers both the data set's chronological and causal structure.

The basic idea of *event structure analysis* (abbr. ESA) is that researchers may identify generative mechanisms that drive certain processes by formally and analytically decomposing a chronological narrative⁶¹ of events, which they then reestablish

⁶¹ Griffin (1993) refers to these chronological narratives as analytical narratives because they are "constructs [...] that unify a number of past or contemporaneous actions and happening [...] into a coherent rational whole that gives meaning to and explains each of its elements" (p. 1097).

“as a causal interpretation of what happened and why it happened as it did” (Griffin & Korstad, 1998, p. 145). The ETHNO software supports this formal analytical procedure as it turns the chronological sequence of events that constitutes the business model innovation process at RINGIER for this study into a set of yes/no questions (Pajunen, 2005): The researcher has to decide for each event-to-event connection whether the temporally preceding event is of causal relevance to a subsequent event (Griffin, 1993). In contrast to a purely narrative strategy (Langley, 1999), event structure analysis enables researchers to distinguish temporal from causal relationships, which is important because the chronological order of events does not necessarily imply that temporally related events are of causal significance to each other (Griffin, 1993). In addition, every step of causal interpretation is strictly reproducible (Griffin & Korstad, 1998) because it follows clear modeling principles (Heise, 1989). ETHNO’s output is a causal diagram that details the researcher’s process interpretation in the form of logical event-event relationships derived from the chronological narrative (Heise, 1989) and may serve further visual analysis or temporal bracketing of process data (Langley, 1999). However, “ETHNO does not ‘discover’ causality” (Griffin, 1993, p. 1108) – that is the analyst’s task (Griffin, 2007).

The analysis of the event structure of RINGIER’s business model innovation process followed three steps. First, I remodeled the chronological event database from phase 1 so that each event entry would be compatible with ETHNO’s data input requirements. Table 31 (p. 150) summarizes the elements that define an ETHNO-event. ETHNO events differ from events defined in phase 1 on three points: First, ETHNO-events may relate only to a single point in time for the sake of chronological order (Heise, 1989), whereas events previously could stretch over a period of time; second, all ETHNO-events have no case indicator since they all relate to RINGIER’s business model innovation efforts; and finally, ETHNO-events are coded in terms of who (i.e., agent), does what (i.e., act), to whom (i.e., object), with what (i.e., instrument), where (i.e., alignment and setting), to what effect (i.e., product), and who is affected (beneficiary) (Heise & Lewis, 1988). As a result of this data transformation, 21 events from phase 1 were dropped because conversation with interviewees and re-reading of raw data made it clear that the events were not relevant to the event path’s progression from the perspective of key informants (Heise, 1989). In addition, four of these events were merged with other events as they pertained to the same actor and activity (Pajunen, 2008). Overall, this resulted in a set of 243 ETHNO-events entered into ETHNO software.

As step two, I followed ETHNO's procedures to determine the logical relations of entered ETHNO-events (Heise, 1989) (cf. Figure 37, p. 283). This procedure is based on four underlying modeling principles: First, events that represent entities and their activities are modeled as production systems (Heise, 1989). According to the theory of production systems developed in cognitive science by Newell and Simon (1972), the action of entities can be expressed as *if-then rules*: "If a certain configuration of conditions arises, then a certain production occurs" (Heise, 1989, p. 141). Note the parallel to realist theorizing, which postulates that the interaction of working mechanisms (i.e., the condition) produce specific events (Miller & Tsang, 2011; Reed, 2009). The same if-then formulation also applies to the consequences of events: "If a given production occurs, then condition A changes state x to y" (Heise, 1989, p. 141). Hence, the outcome of any event is a new set of conditions that in turn trigger the production of new events in turn (Heise, 1989). Should there be a case where conditions arise that may trigger more than one event, a strict interpretation of production systems would allow only for the event of highest priority to be produced (Heise, 1989). However, this restriction is frequently lifted (Griffin, 1993). Second, ETHNO follows a *single mapping rule*, which directly connects events to events – even though the theory of production differentiates between conditions leading to events that in turn produce new conditions that precede new events (Heise, 1989). Thus, one or several previous events serve as necessary preconditions for the next event to materialize (Heise, 1989). This event-event structure is closer to the way interviewees report social processes and allows mapping the event structure as a graph with nodes and branches (Heise, 1989). The third modeling principle, *priming*, states that "an event should not occur until all of its prerequisite event have occurred" (Heise, 1989, p. 143). However, this restriction may be lifted if different sets of prerequisite events lead to the same event. Fourth, ETHNO defines that a later event following a former in an event-event chain depletes the conditions of the former event, i.e. the "occurrence of an event depletes the conditions that prime it" (Heise, 1989, p. 143). According to this logic, an event cannot reoccur until the conditions it created have been used up by another, successive event (Heise, 1989). This restriction may be lifted to allow for commutations, i.e., depleting events that represent circulation relations of events (Heise, 1989). Heise provides the following example:

"enter-a-room is a prerequisite for leave-the-room. Leave-the-room depletes enter-the-room and also is a prerequisite for a repetition of enter-the-room. If the room is re-entered, then that entry depletes the last leaving. Thus, after an initial first entry, leaving

and entering are prerequisites for each other, they deplete each other, and only one event is instantiated at a time” (Heise, 1989, p. 144).

In total I linked 240 ETHNO-events in the ETHNO version⁶² built 10/23/2012. From the initial sample of 243 coded ETHNO-events, three events were dropped as they neither contributed to the understanding of the event path nor indicated the operation of underlying mechanisms. The linking decision for each yes/no question posed by ETHNO has been reported in a separate protocol file. In total, ETHNO prompted 5,100 questions, resulting in 330 event-to-event links. The result of this procedure was a first ETHNO output diagram (i.e., the event structure graph).

The subsequent step three involved *testing, correcting, and complementing* the event-event relationships specified in step two according to the above modeling principles (Heise, 1989) and deciding on which restraints to relax to accommodate the empirical reality of the innovation process (Griffin, 1993; Heise, 1989). When testing the event structure diagram, the single-mapping and depletion rule had to be lifted for several well-founded event-to-event connections⁶³. There were several occurrences where either a single ETHNO-event is primed by two independently necessary ETHNO-events or where a single ETHNO-event is depleted by a multitude rather than a single subsequent ETHNO-event. To verify and complement the event structure graph, I contacted first-round interviewees to question them about certain event-event links. In addition, I conducted four more second-round interviews at RINGIER to the same end. Based on interviewee feedback and follow-up questions, I added six ETHNO-events⁶⁴ to the analytical procedure in ETHNO and adjusted the description and links of ten ETHNO-events in the event structure graph. These steps finally produced the second ETHNO output diagram (cf. p. 287), which served as the basis for identifying the generative mechanisms driving the innovation process.

4.4.3 Phase 3: From event structure to process model

In the third and final phase, I generalized the case-specific event structure and associated these generalized ETHNO-events with the generative mechanisms operating in the real domain (cf. Miller & Tsang, 2011).

⁶² I am very thankful to David Heise, author and programmer of ETHNO, who was so kind as to adapt the 2012 version of his program to accommodate the needs of this largest study conducted in ETHNO to date.

⁶³ The number of event-to-event links that exceeds the number of connected ETHNO-events serves as an indicator that the rules underlying ETHNO need reconsideration if data entry in the event-to-event linking is correct.

⁶⁴ To provide a clear chain of evidence that connects abstract statements to raw data, these additional events in ETHNO are all grounded in either adapted or new incidents and events that relate to quotes in interview protocols or electronic correspondence included in the MAXQDA case-study database.

As a first step, I *generalized* the events of the corrected *ETHNO-event* database to represent broader and more universal categories of events. At this point, the ETHNO-events were still very case specific, for example, referring to detailed steps of improvement on the value proposition after the free newspaper's market launch. While this final coding resulted in more generic event descriptions (Saldana, 2009) that potentially apply to a broader spectrum of business model innovation processes, it did not alter the case-specific logic of the innovation process that is represented in the event structure graph. Thus, this step reduced the number of ETHNO-events from 246 to 140. These 140 generalized ETHNO-events share the characterizing elements of previous ETHNO-events with two exceptions: First, the source field refers to the underlying ETHNO-events instead of lower-level events; and second, an additional field describes how a specific generalized ETHNO-event relates to underlying generative mechanism and represents their operation.

The final step of data analysis and coding relates coded events and *generative mechanisms* that drive the business model innovation. There is no general step-wise codifiable procedure that allows the researcher to relate mechanisms and events (Pajunen, 2008). Following abductive logic, which Ackroyd (2009) suggests for intensive case-study designs⁶⁵, I compared the coded event structure with existing accounts of generative mechanisms and memos written while initially coding the rich raw data (Corbin & Strauss, 2008) in a number of iterative circles. Visual mapping and temporal bracketing strategies both supported this analytical process (Langley, 1999). Thus, taking the "creative leap" (Isabella, 1990, p. 12), I identified three generative mechanisms that drive the business model innovation process at RINGIER in interaction: Teleology, Dialectic, and Sensemaking. The results explained in chapter B5 present a model of how these three mechanisms operate (Glennan, 2005; Pajunen, 2008) to produce business model innovation for the case of an incumbent organization that has been challenged by a new way of creating and capturing value.

⁶⁵ In contrast to Ackroyd (2009), other authors (e.g., Easton, 2010) do not differentiate between retroduction and abduction. Instead, they use either abduction or retroduction to refer to all modes of reasoning related to mechanisms other than induction and deduction.

4.5 Methodology discussion and conclusion

4.5.1 Summary of research design

In conclusion, the study presented in chapter B5 uses a synchronic and diachronic single case study design (cf. chapter B4.1) as part of a process approach (Mohr, 1982; Poole, et al., 2000) to study how incumbent organizations innovate their business model. The use of a priori concepts (cf. chapter B4.2) connects the study to existing research on innovation processes and provides the focus for data collection as well as subsequent analysis.

Data collection (cf. chapter B4.3) relies on two primary sources: First, interviews with key informants inside and outside the studied incumbent organization. Interviewees include present and past organization members that participated in the innovation process at the incumbent site, in rival organizations, and new entrants as well as industry experts, scholars, and consultants specialized in business models.

The second prime source is archival data collected in the form of public documents and corporate documents, to which interviewees granted access. Together, the interview transcripts and collected documents provide a solid basis to retrace critical milestones and incidents that formed RINGIER's business model innovation process.

Finally, I analyzed the collected data (cf. chapter B4.4) along three phases summarized in Table 32: First, I developed a chronological event narrative that, secondly, served to analyze the causal event structure – i.e., the pattern of the business model innovation process. Finally, this identified pattern allowed identifying the generative mechanisms that drive business model innovation at an incumbent organization. The cumulative output of this analytical process is summarized in the process model, which is presented in chapter B6.1.

Table 32: Summary of analytical procedure

Analytical phase	Tasks	Output
1. Developing chronological narrative	<ol style="list-style-type: none"> 1. Organization of raw data (1505 documents) in MAXQDA case study database. 2. Coding of data set for incidents that indicated a change in a priori concepts (i.e., people, ideas, transactions, context, and outcomes). Another outcome of this procedure involves the changes in business model configurations over time. 3. Organization of 638 coded incidents in a relational database in FILEMAKER that allows (a.) retracing incidents to initial data and (b.) sorting coded events chronologically. 4. Interpretative clustering of 638 incidents to derive a list of 264 events that represent higher-level concepts of interest and are organized with event descriptions in a relational database. 5. Verification of the chronological event narrative with key informants. 	<ol style="list-style-type: none"> 1. Chronological narrative in event database 2. Business model configurations over time
2. Analyzing event structure	<ol style="list-style-type: none"> 1. Transformation of the database of events to a new database of ETHNO-events that fulfills ETHNO software's data input requirements. Based on conversations with interviewees and re-reading of raw data, 17 events from phase 1 were dropped because they proved irrelevant to the event path's progression and four (4) events were merged with other events as they pertained to the same actor and activity. This resulted in 243 ETHNO-events as input for ETHNO. 2. Linking of 240 ETHNO-events according to the programs analytical procedure to determine the causal event structure. Three (3) ETHNO-events from the input were dropped as they neither contributed to the understanding of the event path nor indicated the operation of underlying mechanisms. Output of this procedure is the first draft of the event structure graph. 3. Testing the event structure as well as correcting and complementing it with second round follow-up interviews and feedback from first-round interviewees. This resulted in six (6) additional events and adapting the description and links of ten (10) ETHNO-events. Output of this procedure was the second event structure graph. 	<p>Causal logic of events that constitute the innovation process depicted in the event structure graph</p>
3. Identifying generative mechanisms	<ol style="list-style-type: none"> 1. Interpretative clustering of 246 ETHNO-events to represent more universal event categories rather than case-specific event descriptions. 140 generalized ETHNO-events are the outcome of this final coding round. 2. Identification of generative mechanisms following an abductive logic by iterating between event structure, accounts of generative mechanisms, and raw data. 3. Mapping of the instance of generative mechanisms operating over time and identification of their respective relationships. 4. Identification of four different stages in the incumbent business model innovation case study based on mapping of generative mechanisms and event structure graph. 	<p>Process model of incumbent business model innovation</p>

Source: Own representation.

4.5.2 Addressing rigor and bias

Every piece of research should aim for “transparency, rigor, [and] contestability” (Mir & Watson, 2001, p. 1173) in its methodology independent of the underlying philosophical assumptions (Kwan & Tsang, 2001). This chapter thus discusses how quality criteria are met and bias is addressed as part of the research design.

The methodological literature has not come up with a definitive answer to the question of whether realist research requires a specific set of quality criteria other than those valued in positivist research. For example, Riege (2003) and Healy and Perry (2000) disagree over the extent to which good practice of rigorous studies map onto construct validity, internal validity, and external validity as well as reliability. However, as realism-specific criteria have not found widespread use in management and organization studies, the subsequent discussion adheres to the four dominant concepts of methodological rigor (Gibbert, Ruigrok, & Wicki, 2008).

First, *construct validity* refers to the steps the researcher undertakes to ensure that the employed methodology allows observing what s/he aims to (Gibbert & Ruigrok, 2010) – i.e., ultimately, the generative mechanisms driving and explaining business model innovation process. The research design in this chapter uses diverse sources of evidence (i.e., public and corporate; accounts and artifacts) and different data collection methods (i.e., primary data collection in interviews and secondary data collected from different archives) to triangulate information gathered on events that constitute the business model innovation process (Bennett & Elman, 2006; Eisenhardt, 1989). One source of evidence that was only accessible indirectly and in a very limited fashion due to confidentiality issues was protocols of board meetings. It would have been interesting to deconstruct these protocols to have a more direct view of top management level sensemaking processes. With the access available, however, sensemaking was mainly discussed with interviewees in retrospect and the results of the process (i.e., sense) traced in documents. However, key informants accessing the protocols clarified at least a few specific questions where information was not available from other sources. Over and above triangulation, key informants proofreading interview transcripts and part of the case study draft contributed to construct validity (Gibbert, et al., 2008). Furthermore, chapters B4.3 and B4.4 establish a clear chain of evidence that details the methodological and analytical procedures used (Gibbert, et al., 2008), how data was accessed, collected, and interviewees were sampled, and they detail the use of analytical software (Gibbert & Ruigrok, 2010).

Second, *internal validity* refers to the steps the researcher undertakes to ensure that his logical reasoning is coherent and persuasively supports the case study's conclusions (Gibbert, et al., 2008). In favor of internal validity, the case study builds on an explicit research framework (Gibbert & Ruigrok, 2010) (cf. chapter A2.6.1) that relates empirical domain observations of entities and their activities (i.e., events) to generative mechanisms operating in the real domain (Pajunen, 2008). Definitions are given for relevant concepts on the basis of existing work on innovation process (cf. chapter A2.4 and B4.2) and conceptual work on business models (cf. chapter A2.2, A2.3, and B4.2). In addition, multiple generative mechanisms are used in the interpretation of the case study findings (cf. chapter B4.4) and compared to previous research (Gibbert & Ruigrok, 2010; Yin, 2003).

Third, construct validity and internal validity are prerequisites to *external validity*, which refers to the steps the researcher undertakes to ensure that the case study's findings apply to a larger population or setting than those studied (Gerring, 2004; Gibbert & Ruigrok, 2010). The claim for the external validity of the results presented in subsequent chapters rests on three pillars: First, the single case study was theoretically sampled to represent the phenomenon of interest to this study (cf. chapter B4.1) (Eisenhardt & Graebner, 2007; Gibbert, et al., 2008) and the case context is described extensively (cf. chapter A3) (Gibbert, et al., 2008). Second, the single case study builds on existing generative mechanisms "that generalize beyond the immediate instance of the phenomenon and are critical to its occurrence" (Miller & Tsang, 2011, p. 147). Finally, the single case study is an instance of heuristic generalization that allows improvement of our understanding of existing phenomena by refining and elaborating existing models of business model innovation in an open-ended dialog between the particular case and the theoretical model (Tsoukas, 2004). However, the single case study design is clearly limited in terms of statistical generalization and Yin's (2003) logic of replicated experiments (Tsoukas, 2004), whereas qualitative comparative methods or even large-N studies would be more suitable to that end (Gerring, 2007; Rihoux & Ragin, 2008).

Finally, *reliability* refers to the steps the researcher undertakes to make the case study transparent and replicable (Gibbert & Ruigrok, 2010). To address transparency, the steps undertaken to collect and analyze data as part of the case study methodology are detailed in chapters B4.3 and B4.4 (Gibbert, et al., 2008). Furthermore, all available documents have been organized in a case study database in MAXQDA and the

actual name of the case site studied is indicated. Both measures support replicability of the case study (Gibbert, et al., 2008).

In addition to these four quality criteria, three types of biases need to be addressed: Retrospection, selection bias, and confirmation bias.

The first bias, *retrospection*, pertains to potential problems that relate to the use of retrospective accounts as a source of data. Ideally, selected interviewees are key informants who are knowledgeable about the innovation process in question, and willing as well as able to provide valid and accurate accounts of what happened when RINGIER engaged in innovation efforts (Glick, Huber, Miller, Doty, & Sutcliffe, 1990). However, assuming interviewees' best intentions, the accounts must be treated with caution for three main reasons: First, there are limits to human recall (Heise, 1989). Golden (1992) notes that accounts of specific actions and factual knowledge generally tend to be less susceptible to faulty memory and cognitive biases than those about past beliefs and intentions. Second, the narrative may retell the events that constitute the innovation process more logically than the actual sequence was when interviewees still found themselves in the ongoing project (Heise, 1989; Langley, 2009). Third, interviewees may portray past experience favorably and stress specific events because they are emotionally attached to a project, or because they want to depict their organization or themselves in a specific light (Golden, 1992). This problem is probably more pronounced given the pro-innovation bias that applies to the phenomenon under study (Leonard-Barton, 1990). The methodology of this study addresses retrospection in a twofold manner: the first means was triangulation, using both different kinds of sources⁶⁶ and interviewing multiple key interviewees representing present and past organization members (Golden, 1992). Second, I supported interviewee's recall of the innovation process by providing them with a time line of events derived from secondary data. In addition, more than half the interviewees entered the interview situation with corporate documents (e.g., presentations for meetings and conceptual drafts) that documented key events in the innovation process and that they had retrieved from their personal archives in preparation for the interviews.

Secondly, *selection bias* refers to concerns about selecting the case to study on the dependent variable (Bennett & Elman, 2006). Van de Ven and Poole (1990) generally recommend studying processes at least in part in real time to avoid potential bias that

⁶⁶ For example, public documents that had been published on the websites of free newspapers but which were closed years ago, were accessed using the Internet archiving service WAYBACKMACHINE (<http://archive.org/web/web.php>).

may result from knowing the outcome of a project beforehand. However, this is often-times neither feasible nor necessary – in particular for realist studies. As Bennett and Elman (2006) explain, the purpose of studies that follow a process approach is to explain the powers that connect the cause and outcome from beginning to end. The outcome may therefore be the very motive to sample a particular case on theoretical grounds (Langley, 2009) – such as is the case for this study.

Finally, *Confirmation bias*, refers to matters of guarding methodology against one-sided evidence collection and analysis that confirms explicit or implicit assumptions held by the researcher (Nickerson, 1998). This bias is addressed in three ways: First, the methodology accounts for problems experienced during the research project in order to avoid the impression of a smooth self-fulfilling-prophecy-like study (Gibbert & Ruigrok, 2010). Second, the case study analysis probes for evidence that could rule out alternative explanations (Bennett & Elman, 2006). Finally, the case analysis accounts for multiple explanatory mechanisms, which increases the trustworthiness of the model presented (Bennett & Elman, 2006; Miller & Tsang, 2011).

5 The process of business model innovation

5.1 Ringier and the free newspapers 1999 to 2011

The RINGIER organization started out in 1833 as a small, local print shop in northwestern Switzerland (Meier & Häussler, 2010a). Over the years, RINGIER first developed from a print shop to a national publishing house with a focus on illustrated magazines in the early 20th century (Ringier, 2009c). In 1959, RINGIER entered the daily newspaper business with Switzerland's first tabloid newspaper BLICK (Ringier, 2009c). Ten years later, it introduced yet another Swiss first, the Sunday newspaper SONNTAGSBlick (Ringier, 2009c). While print and publishing was still its core business in the 1980s and 1990s, RINGIER started to diversify into other media like television and radio as well as to internationalize, with foreign ventures in Asia and Central and Eastern Europe (Ringier, 2009c). Despite the addition of online activities in the late 1990s and early 2000 and defining itself as international media corporation (Ringier, 2000b), RINGIER continued to focus on publishing activities. At the end of 2011, RINGIER presented itself as an multinational and integrated media corporation in fifth generation family ownership with its headquarters and home market in Zurich, Switzerland (Ringier, 2011). The media corporation's brand portfolio comprised print, radio and television broad casting, and online as well as mobile media brands, all of which are organized in three core business areas: print, entertainment, and internet business (Ringier, 2011).

Table 33 (p. 163) summarizes RINGIER's organizational profile at the start (i.e., 1999), middle (i.e., 2005), and at the end of the period considered in the case study analysis (i.e., 2011).

RINGIER launched its first daily newspaper, BLICK, on October 14, 1959 (Meier & Häussler, 2010a; Schantin, 2010). Up to that point, RINGIER had built a reputation for publishing illustrated weekly magazines (e.g., SCHWEIZER ILLUSTRIERTE). However, persistent rumors about plans for a daily illustrated newspaper with the potential to cannibalize its magazine business catalyzed RINGIER's entry into the market for newspapers (Meier & Häussler, 2010a).

Table 33: Ringier's organizational profile

Organizational profile			
Year established	1833		
Legal form	Joint-stock company in founder family ownership		
	1999	2005	2011
Geographic market domains (by relevance)	CH (85.1%), Central and Eastern Europe (12.3%), Asia (2.6%)	CH (66%), Central and Eastern Europe (29.8%), Asia (4.2%)	CH and Germany (72.4%), Central Europe (23.9%), Asia Pacific and New Markets (3.7%)
Major business units in Switzerland	Magazines Newspapers New Media Publishing Services	Magazines Newspapers Business Media Ringier TV Publishing Services	Publishing Magazines Newspapers Web Mobile Publishing Services Digital business E-Commerce Digital services Entertainment Events TV Radio Entertainment services
Employees (CH)	2,800	3,243	*3,238
Total Revenue (group-level)	CHF 947.0 m	CHF 1256.3 m	CHF 1147.0 m
Revenues Switzerland			
Total print	CHF 484.1 m	CHF 494.4 m	* CHF 357.8 m
Newspapers	CHF 266.7 m	CHF 200.7 m	° -
(sales)	(CHF 121.4 m)	(CHF 102.5m)	° -
(advertising)	(CHF 117.9 m)	(CHF 85.7 m)	° -
Number of paid-for daily newspapers (CH)	1	1	1
Readership / Circulation Flagship daily newspaper	760,000 / 317,000	717,000 / 262,000	622,000 / 206,000
Number of free daily newspapers (CH)	0	0 (1 general and 1 special interest free daily in development)	1
Readership / Circulation General interest free daily	-	-	635,000 / 321,000

Note: * denotes figures including values for Germany where RINGIER operates a political and a cultural magazine. ° denotes missing values due to aggregation of business units. Source: Own representation based on annual reports.

Because this was Switzerland's first tabloid newspaper, RINGIER had to turn to experienced Austrian and German boulevard editors to provide training and consulting for its novice editorial team (Meier & Häussler, 2010a). RINGIER also drew inspiration for the new newspaper's content and market positioning from foreign sources: The

British DAILY MIRROR and German BILD newspaper served as role models for RINGIER's its six-page newspaper published in autumn of 1959 (Meier & Häussler, 2010a).

The public responded to the new style of newspaper with indignation: Boulevard journalism was labeled "un-Swiss" (Meier & Häussler, 2010a, p. 431), bans were imposed on selling and reading BLICK, and the new newspaper was even the subject of discussions in parliament (Lüönd, 2008a; Meier & Häussler, 2010a). Incumbent daily press trusted in "Swiss people's good taste and good sense" not to read this rag (Meier & Häussler, 2010a, p. 478).

However, BLICK won over readers as "a popular paper [... for] the common man" (Schantin, 2010, p. 3). In 1972, Ringer was Switzerland's most widely read daily newspaper out of 297 titles with a total circulation of about 267,000 issues (Meier & Häussler, 2010a). Readership increase allowed the tabloid also to win favor with advertising clients. Within six years, the paid-for newspaper reached break-even and by 1973, RINGIER had its investment redeemed (Meier & Häussler, 2010a). The volume of the newspaper more than doubled and the editorial content shrank to approximately 45 percent of the total volume in 1972 (Meier & Häussler, 2010a). A growing editorial team handled a broad range of (boulevard) topics, of which sports were particularly important, and BLICK earned a reputation for its sport coverage (Meier & Häussler, 2010a).

Throughout the 1980s, BLICK proved very successful in the readers' and advertising market. Circulation reached an all-time high in 1987, with 382,000 issues and a readership of well over a million (Meier & Häussler, 2010b). Financially, BLICK was RINGIER's "uncontested cash cow" (Meier & Häussler, 2010b, p. 800), with over the counter sales (about 66 percent) and subscription (about 33 percent) revenues of CHF 104 million and CHF 17 million in cash flow in 1984 (Meier & Häussler, 2010b). In the 1980s, RINGIER's daily boulevard newspaper was sold by newsagents and in pay-per-copy vending machines, which allowed high levels of geographic coverage and market penetration (Meier & Häussler, 2010b). Meanwhile, content focused less on crime and violence and, instead, on the lighter side of life as well as politics and business news from a personal perspective, which positioned BLICK as a differentiated yet complementary offering to traditional daily newspapers (Meier & Häussler, 2010b).

By the 1990s, BLICK's heyday was past and the newspaper experienced increased competitive pressure. The content and style of Swiss media moved closer toward those of traditional boulevard titles (Meier & Häussler, 2010b). As conduct that had previously been perceived by the public as unseemly was becoming more accepted, head-

lines in ordinary newspapers became shorter and catchier, and newspapers included more illustrations, and made more use of color print (Lüönd, 2008a; Meier & Häussler, 2010b). In the meantime, the editorial staff of BLICK tried to balance their news product between, on the one hand, the demands of traditional boulevard journalism (e.g., emotional articles, polarizing headlines, and service columns) and, on the other hand, delivering readership content of a more serious and relevant nature (Meier & Häussler, 2010b). Hence, this attempt to increasingly target the occasional BLICK reader and appeal to a broader audience weakened the flagship newspaper's differentiating value proposition (Meier & Häussler, 2010b).

When foreign publishers entered the Swiss newspaper markets with a new business model in late 1999 and early 2000, RINGIER – initially – seemed little affected by the new competition because they targeted local urban markets (Hartmeier & Seibt, 2006; Meier & Häussler, 2010b). However, the free dailies provided content in a format very similar to that of a boulevard newspaper: short and succinct “news snippets” (Meier & Häussler, 2010b, p. 921).

In 2003, a new BLICK editor-in-chief assumed office to address the decline of RINGIER's flagship newspaper, which was and still is closely connected to RINGIER's public perception (Manager1, 2011; Meier & Häussler, 2010b). That year, BLICK circulation had fallen below 300,000 issues for the first time since the early 1980s (Meier & Häussler, 2010b). The new editor-in-chief had to institute cost-cutting measures, lay off staff, and identify ways to reposition BLICK (Meier & Häussler, 2010b). He introduced a new layout, more reader-centric stories, and returned the paper's focus to classical boulevard topics such as celebrities, sex, and crime (Meier & Häussler, 2010b). However, the measures did not stop the decline in readership. The editor-in-chief was not only faced with challenges from the flagship newspaper; he also had to later contend with an internal contestant.

Just as SCHIBSTED ASA had introduced its first free newspaper in Switzerland in the 1990s rather than in Norway (Vogel, 2001), RINGIER also opted to introduce its first free daily newspaper in a foreign market. In November 2005, RINGIER launched 24 HODIN⁶⁷ in the Czech Republic capital of Prague (Persönlich, 2005d). Even though this foreign venture, RINGIER's first exposure to the new free daily newspaper business model, came at a time when the organization was developing concepts for Switzer-

⁶⁷ RINGIER closed down 24 HODIN in December 2008 for economic reasons (NZZ, 2008).

land, there were no connections between Swiss and foreign free newspaper operations between 1999 and 2011 (Editor-in-Chief1, 2011; Manager5, 2011).

In Switzerland, however, RINGIER project teams began focusing work on the free newspaper business model in 2005 (Manager1, 2011). The incumbent publisher eventually introduced a general interest free daily called HEUTE in May 2006 as well as a special interest free daily titled CASHDAILY in September 2006.

The focus of the subsequent analysis rests exclusively on RINGIER's general interest (free) newspaper, HEUTE, and its successor, BLICK AM ABEND, as well as their relationship with BLICK, the incumbent's flagship newspaper. Of all RINGIER newspapers, BLICK had been the most prominently affected by the market entry of general interest free dailies since 1999, which makes the relationship between HEUTE and BLICK an interesting and extreme example to study (cf. Pettigrew, 1990). Moreover, CASHDAILY did not lend itself to an analysis of the business model innovation process for three main reasons: First, the business models of 20 MINUTEN and METROPOL never directly competed against CASH, RINGIER's weekly paid-for business newspaper and incumbent counterpart of CASHDAILY. Second, CASHDAILY was never conceived of as an independent business model but as part of the business model of a multi-media platform (Manager5, 2011). Thus, the innovation process for the free daily business model was not separately observable. Finally, CASHDAILY's incumbent counterpart, CASH, was a weekly, rather than a daily, publication. The conflict potential between paid-for weekly publications and free daily newspapers is considerably lower than the selected cases (i.e., BLICK and HEUTE/BLICK AM ABEND) (Haller, 2009a). From a theoretical point of view, this makes CASHDAILY and CASH less interesting cases to study (cf. Gerring, 2007; Pettigrew, 1990).

The case analysis presented in the subsequent chapter spans the time period from the first market entry of new rivals competing on the basis of a new business model from 1999 until 2011. RINGIER's behavior in response to the new business model is investigated, business model innovation efforts starting in 2005 are tracked, and the relationship between the old and the new business model is analyzed throughout the entire period. However, even before the market launch of 20 MINUTEN in 1999, RINGIER had at least three loosely connected experiences and encounters with the concept of "free" in the newspaper business that were mentioned as precursors by organizational actors: First, RINGIER produced a free daily newspaper for ten days in 1987 at a general tradeshow in Basel (Journalist2, 2012). The free newspaper, titled BASLER EXPRESS was produced from a full-fledged editorial office and print facility estab-

lished on site at the tradeshow. The free title was distributed twice a day and contained general news, a weather report, comments, and celebrity news. Thus, in terms of content, BASLER EXPRESS, was more than a common trade-show journal and exhibited traits of modern free dailies (Haller, 2009a; Journalist2, 2012). The purpose of this free press title was to showcase RINGIER's newspapers and to educate a broader public about newspaper production at RINGIER (Meier & Häussler, 2010b). The title was discontinued after the tradeshow, but the positive momentum led to a new local insert for BLICK covering Basel-specific reports published between 1988 and 1989 (Journalist2, 2012; Meier & Häussler, 2010b). Second, a journalist developed a newspaper draft and a business plan for a free newspaper titled EXPRESS in spring 1994 that was brought to the attention of the RINGIER executive board (Consultant2, 2011; Wigdorovits, 2003). While a project team was subsequently established to substantiate the early concept, efforts were stopped in autumn 1994 after an intervention by the BLICK editor-in-chief, who was unwilling to risk cannibalization (Consultant2, 2011). Third, inspired by Swedish METRO, the Zurich public transport association, ZVV, contacted RINGIER and other Zurich-based publishers in 1996 about a potential collaboration to launch a free commuter newspaper (working title ZÜRI-FLASH) on its transport network (Bosshard, 1996). However, the project was halted for "economic, legal, and media-political reasons" (Ihle, 1996, p. 53); however, the main reason for the project's demise involved publishers' limited commitment to an idea that would potentially cannibalize their advertising revenues.

None of these early precursors at RINGIER materialized in business model innovation efforts leading up to a market launch of a free press product by the incumbent publisher. What did finally trigger and drive business model innovation is at the core of the subsequent analysis.

5.2 Innovating the free daily's business model at Ringier

5.2.1 Overview of process stages

To facilitate orientation throughout the following analytical case study, this chapter provides an overview of the process model resulting from the analytical procedure described in chapter B4. The case description covers two elements: First, RINGIER's encounter with a new business model introduced to the incumbent's industry and national newspaper market by two foreign market entrants; and secondly, RINGIER's response to the new ways of creating and capturing value as well as its business model innovation efforts over time.

Figure 26 depicts instances of generative mechanisms (cf. A2.5) working throughout the case study's four consecutive stages. Every cycle⁶⁸ (e.g., S2, D2, and T1) in Figure 26 represents a coherent set of generalized ETHNO-events that resulted from the abductive event structure analysis (cf. B4.4.3). "S" denotes sensemaking cycles⁶⁹, "D" indicates dialectical cycles⁷⁰, and "T" refers to teleological cycles⁷¹. Full cycles (e.g., S2) indicate instances of generative mechanisms that trigger and contribute to other instances of generative mechanisms. Numbered arrows represent those primary paths of interaction. In contrast, incomplete cycles (i.e., S1, D1, and T9) denote instances of generative mechanisms that do not contribute to other mechanisms.

Two exceptions stand out from the overall picture: First, arrow 3 between T1 and T2 is depicted in a dashed instead of a solid line because T1 only indirectly contributes to T2 in terms of a resource transfer. However, from the local logic of innovation process participants, these two instances are connected across stages 1 and 2. The second exception is T7 in stage 3, including the arrows 15, 16, and 26. These elements of Figure 26 are drawn in a dashed line because they represent an independent influence on the business model innovation process that developed within RINGIER but beyond the scope of the innovation process.

The case description organizes the operation of different generative mechanisms along the timeline between 1999 and 2011.

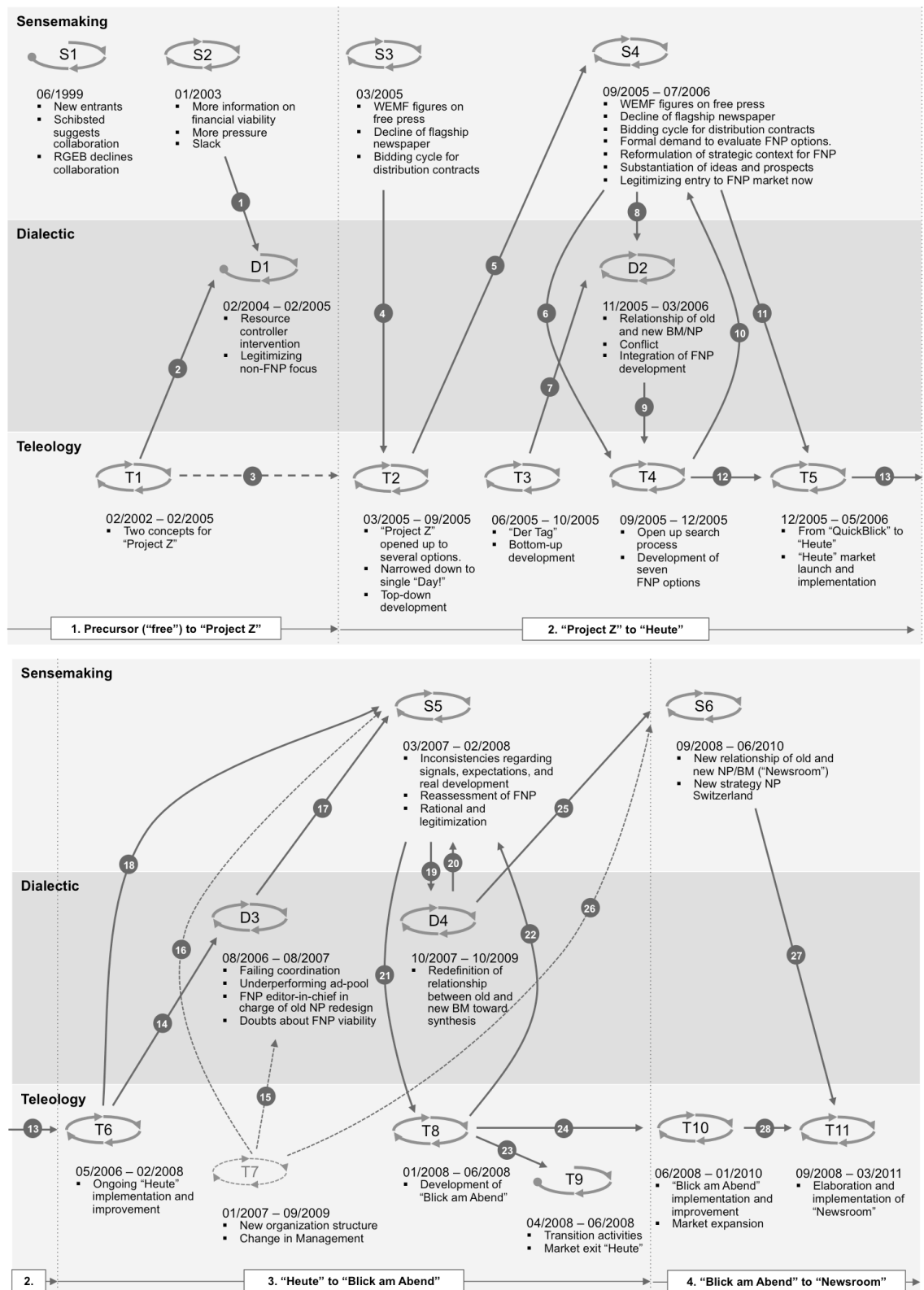
⁶⁸ Note the graphical reference to the research framework in Figure 16 on page 114.

⁶⁹ I.e., ecological change is sensed and order enacted in the continuous flow of experience. With reference to mental models, the bracketed flow of experience is subsequently reduced to "a locally plausible story [...] which serves as a guide for further action and interpretation" (Weick, et al., 2005, p. 414).

⁷⁰ I.e., change results from contradiction, tension and conflict between an actor/group with a thesis and an anti-thesis and might finally be resolved in the form of a synthesis (Poole & Van de Ven, 2004).

⁷¹ I.e., an actor/group formulates a goal based on an opportunity/dissatisfaction, takes purposeful action to implement the goal, monitors progress, and makes modifications based on learning (Poole & Van de Ven, 2004).

Figure 26: Mechanisms operating throughout stage 1 to 4 (1999 – 2011)



Note: "BM" denotes business model; "FNP" denotes free newspaper; "NP" denotes newspaper; "RGEB" denotes RINGIER group executive board. Source: Own representation.

Stage 1 covers the events from MTG's and SCHIBSTED ASA's market entry preparations in mid-1999 to the start of RINGIER's free-newspaper-specific innovation efforts in March 2005. There were four generative mechanisms at work at this first stage in Ringier's process of dealing with the new free newspaper competition: Sensemaking cycles were activated twice when an outside opportunity triggered sensemaking at the highest RINGIER management levels. The first sensemaking cycle (S1) ended without triggering further action. The second sensemaking instance (S2) contributed to a dialectic cycle that favored the existing business model because previous negotiations with SCHIBSTED ASA had not led to a favorable outcome. The teleological cycle (T1) that worked toward new newspaper concepts also fueled the first dialectic confrontation (D1) between the thesis and anti-thesis. However, the first teleological cycle ended as the debate shifted in favor of the old model as part of the enactment of the outcome of the second sensemaking cycle. Finally, the dialectical cycle ends the case study's first stage without triggering further action toward the development of a free newspaper.

Stage 2 includes all events from the start of the first top-down innovation project to develop a free newspaper at RINGIER in March 2005 to the market launch of HEUTE (engl. today), RINGIER's first general interest free daily in Switzerland in May 2006. There were two sensemaking, one dialectical, and four teleological mechanisms at work throughout stage 2. The financial success of domestic and foreign free dailies as well as changing media consumption habits, on the one hand, and the continued downward trend of RINGIER's incumbent newspapers BLICK and SONNTAGSBlick in terms of net reach, on the other, caused RINGIER managers to reconsider their stance on the free daily business model in the third sensemaking cycle (S3). This formally started the innovation project team's teleological search process, within which they developed assumption-based options, gathered information, and developed initial first business model ideas (T2). The new information was subsequently incorporated into further sensemaking at the top management level, where the legitimization of involvement in a free newspaper was updated and refined (S4). This sensemaking cycle interacted with both the following operational level project development (T4, T5) and a dialectic conflict (D2) between the old and the new business model. The conflict materialized as a result of both public attention and a BLICK journalist's bottom-up initiative to develop a free newspaper of his own (T3), which led to a more concentrated focus on support for the anti-thesis (i.e., the free daily's business model). Finally, the

result of this interaction was the implementation of HEUTE newspaper (T5) as an organizationally separated unit in May 2006.

Stage 3 is comprised of the events referring to the ongoing implementation and improvement of HEUTE starting in June 2006 and to the transition from HEUTE to a new general interest free daily titled BLICK AM ABEND, launched as a replacement in June 2008. One sensemaking, two dialectic, and four teleological generative mechanisms operated throughout stage 3. The results of the sixth teleological mechanism (T6) and HEUTE's ongoing implementation and improvement were below the expectations of RINGIER's management. In addition, the signaling of project outcomes, which focused more on the positive readership figures and less on the lagging ad display sales, created dissonance. Together with the BLICK editor-in-chief's unwillingness to maintain minimal coordination and the stagnant performance of the joint advertising pool, the dissonance triggered the third dialectical cycle (D3). The sixth teleological cycle contributed directly and via the third dialectical cycle to a reassessment of HEUTE in the fifth sensemaking cycle (S5). The new strategic context as well as new management of RINGIER SWITZERLAND installed by the seventh teleological cycle (T7) both disfavored HEUTE. Sensemaking (S5) interacted with a new dialectical cycle (D4) enabled by the prospect of HEUTE's market exit. A new rationale was introduced to allow for a more complementary relationship of the incumbent and new business model in the dialectic interaction between proponents of the thesis and anti-thesis. Project work to develop a new free daily was initiated by a top-down-motivated eighth teleological process (T8). Finally, as the new concept was substantiated and prepared for market launch, the designated editor-in-chief of the new BLICK AM ABEND managed the transition from HEUTE to the new free daily as well as HEUTE's market exit in the ninth teleological cycle (T9).

Stage 4 covers the events that relating to the implementation and improvement effort after June 2008, and to the introduction and implementation of a single multimedia newsroom for all BLICK-branded newspapers (incl. the flagship incumbent newspaper and free daily) between 2010 and 2011, which had profound implications for the business model of the free daily. One sensemaking mechanism, one dialectical⁷² and two teleological mechanisms were in operation throughout stage 4. As HEUTE had in Summer 2006, BLICK AM ABEND entered a teleological cycle (T10) of ongoing implementation and improvement after market launch. However, the adaptations to the

⁷² Note that this instance of a generative mechanism is only depicted in stage 3 for graphical reasons. The fourth dialectical cycle's time index in the graphic depicts the temporal overlap with motor working in stage 4.

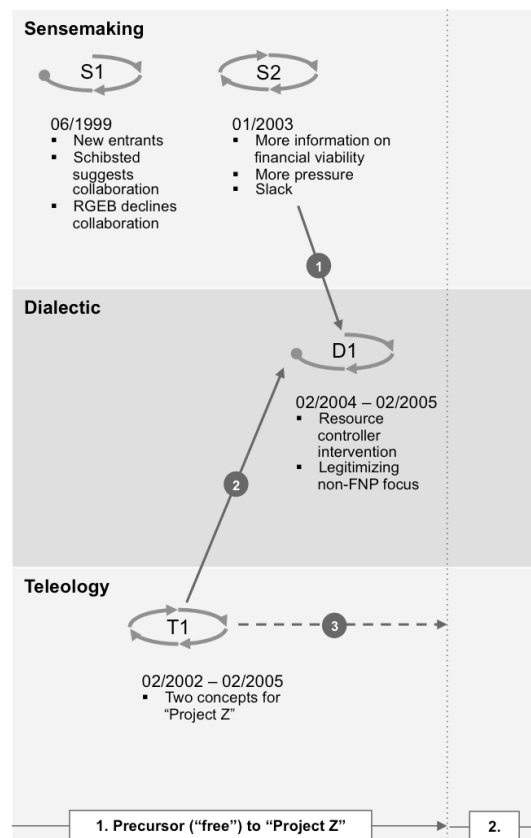
initial concept were not as far-reaching as they had been for HEUTE because BLICK AM ABEND was able to exploit what had been already learned about the production of a free daily at RINGIER up to this point. The integration and synergies of the old and new newspaper business model are taken further within the sixth sensemaking cycle (S6) as a result of the developments initiated by the fifth sensemaking cycle (S5) in stage 3 and the fourth dialectical cycle (D4) in stages 3 and 4. A new business model of the free daily as part of an integrated media platform was the outcome of newsroom integration, which changed previously unaltered aspects of free newspaper value creation in the eleventh teleological cycle (T11).

While the above section provides only an initial, superficial overview, the subsequent chapters delve more deeply into the case, presenting the case narrative stage-by-stage and offering support through first-hand evidence intertwined with theoretical insights (Eisenhardt & Graebner, 2007). Inspired by Cule and Robey's (2004) interpretive framework, each process stage in chapters B5.2.2 to B5.2.5 is divided into three sections (i.e., causal conditions, actions, and consequences).

5.2.2 Stage 1: Precursor to PROJECT Z

Stage 1 in Figure 27 covers events from MTG's and SCHIBSTED ASA's market entry preparations in mid-1999 to the start of RINGIER's free-newspaper-specific innovation efforts in March 2005.

Figure 27: Mechanisms operating throughout stage 1 (06/1999 – 02/2005)



Source: Own representation.

5.2.2.1 Starting conditions

By the late 1990s, RINGIER had produced a free daily newspaper for a ten-day period (Meier & Häussler, 2010b), worked for about half a year on a free newspaper concept based on a bottom-up initiative by an editor (Consultant2, 2011), and declined an offer to collaborate with the Zurich public transport association (Ihle, 1996). However, none of these events translated into serious business for RINGIER. Thus, until 1999, the incumbent publisher had not given serious thought to the idea of a modern free daily newspaper.

While chapter B5.1 described BLICK's development history, Table 34 provides an overview of the business model of RINGIER's flagship newspaper in 1999. The busi-

ness model establishes RINGIER's point of reference for the later assessment of new free newspaper competition and the development of its own free daily concepts.

Table 34: Business model configuration BLICK in 1999

Business model element	BLICK
<i>Value proposition</i>	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> ▪ Color morning newspaper in broadsheet format. ▪ Content structured into two books covering news, politics, business, entertainment, sports, and services. ▪ Layout defined by content. <p><i>Customer</i></p> <ul style="list-style-type: none"> ▪ Rural, mostly male readership aged 35 plus. ▪ Readership of basic to intermediate education level. ▪ Household income between CHF 4,000 and CHF 8,000. <p><i>Customer Value</i></p> <ul style="list-style-type: none"> ▪ Switzerland-specific and international news, yellow-press content, and original content. ▪ Perspective and opinion on current topics of interest in a way the reader understands and s/he can relate to. ▪ Loud and emotional tone. ▪ Service section with personalized reader advice. ▪ Access to a rural target group with high reach in German-speaking part of Switzerland as Switzerland's most widely read newspaper.
<i>Value creation</i>	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> ▪ High number of staff. ▪ Experienced journalists. ▪ Investigating original content. ▪ Providing background and perspectives. ▪ Integrated production (central print facilities). <p><i>Value network / Coordination</i></p> <ul style="list-style-type: none"> ▪ -
<i>Value communication and transfer</i>	<p><i>Communication</i></p> <ul style="list-style-type: none"> ▪ Classical advertising mix. ▪ Primetime TV advertisements addressing news content. ▪ Reader-generated content in newspaper's service section. <p><i>Transfer</i></p> <ul style="list-style-type: none"> ▪ Newsagents and kiosks. ▪ Pay-per-copy vending machines. ▪ Postal service home delivery.
<i>Value capture</i>	<ul style="list-style-type: none"> ▪ Advertising revenues from national campaigns (i.e., German-speaking part of Switzerland) (i.e., 39% of revenues). ▪ Single-copy sales (CHF 1.50 per copy) and newspaper subscriptions (i.e., together 58% of revenues).

Source: Based on Meier and Häussler (2010b), Facts (2007), Hürzeler (1997, 2002), Hürzeler and Grieder (1997), and Journalist2 (2012).

In a number of key elements, the business model of BLICK resembled the archetypal paid-for daily newspaper defined in Table 28 (p. 128): First, the unit of business was a substantial morning daily newspaper published in two books (Hürzeler & Grieder, 1997; Meier & Häussler, 2010b) for a readership group of high average age (Hürzeler, 1997; Journalist2, 2012). Second, a large number of experienced journalists produced original content for the BLICK newspaper that was produced and distributed

by RINGIER in an integrated fashion (Journalist2, 2012). Third, the changing content of the newspaper that featured six main sections (i.e., news, politics, business, entertainments, sports, and services) required the editorial and production team to define a new layout on a daily basis (Hürzeler, 1997; Journalist2, 2012). Fourth, BLICK was advertised to readers in classical media such as television broadcastings (Journalist2, 2012). Fifth, readers bought the morning newspaper either as a single copy at a newsagent or as a subscription with home delivery service (Journalist2, 2012; Meier & Häussler, 2010b). Finally, also BLICK's revenue sources (i.e., advertising campaigns, subscription fees, and single copy sales) matched those of traditional paid-for newspapers.

However, in contrast to Switzerland's other leading newspapers (cf. chapter A3.1.1) and the archetypal paid-for newspaper, the yellow press title, BLICK, displayed four peculiarities: First, the newspaper emphasized typical yellow press content of a loud and emotional tone (Hürzeler, 1997, 2002; Meier & Häussler, 2010b). Thus, BLICK put more emphasis on portraying a particular perspective to which the reader could relate rather than equally representing the diverse spectrum of opinions (Hürzeler, 1997; Meier & Häussler, 2010a, 2010b). Second, the newspaper was predominantly consumed by a rural male readership of a basic to medium education level (Journalist2, 2012; WAN, 2000). Third, the newspaper featured reader-generated content and personalized advice in the service section, which was processed and produced by a separate designated part of the editorial team (Journalist2, 2012). Finally, RINGIER complemented the common means of value transfer through an extensive network of pay-per-copy newspaper vending machines (Journalist2, 2012; Meier & Häussler, 2010b).

Table 35 details the revenue and cost breakdown for BLICK in 1999, 2005, and 2011. In 1999, BLICK found itself in a favorable financial position despite a slowly declining readership (Ringier, 2000a). That year, the newspaper's total revenues exceeded total cost by 12 percent (Ringier, 2013). Hence, in 1999, RINGIER was profitably operating a mostly standard paid-for newspaper business model that displayed a limited number of peculiarities predominantly induced by BLICKS' yellow press positioning.

Table 35: Revenue and cost breakdown for BLICK in 1999, 2005, and 2011

	BLICK 1999	BLICK 2005	BLICK 2011
Circulation	58%	62%	59%
Advertising	39%	36%	32%
Other	3%	3%	8%
Total revenues	100%	100%	100%
Printing, distribution	35%	34%	50%
Editorial	22%	25%	25%
Marketing	10%	11%	8%
Publishing	22%	23%	10%
Total cost	88%	93%	93%

*Note: Rounding differences explain the deviation between sum of cost/revenues and provided totals.
Source: Based on RINGIER (2013).*

5.2.2.2 Causal conditions that start process

In mid-1999, two independent teams, one established by Norwegian publisher SCHIBSTED ASA and the other by Swedish MODERN TIMES GROUP (MTG), were preparing the market launch of a modern free daily in Zurich for early 2000 (Haller, 2009a; Lüönd, 2008b): 20 MINUTEN and METROPOL (cf. chapter A3.3).

RINGIER's management was already aware of METRO's development in Sweden (cf. Vogel, 2001) and recent market entry preparations for Switzerland when SCHIBSTED ASA approached RINGIER to offer a 20 percent stake in its Swiss venture, 20 MINUTEN SCHWEIZ AG (Consultant2, 2011; Lüönd, 2008b).

5.2.2.3 Actions

The news about both SCHIBSTED ASA's and MTG's Swiss operations and SCHIBSTED ASA's direct offer to invest in 20 MINUTEN SCHWEIZ AG triggered a *first cycle of sensemaking (S1)* at RINGIER.

At the organization's highest management level, actors discussed how to respond to foreign entrants and their market launch preparations as well as SCHIBSTED ASA's investment offer. However, in retrospect, interviewees disagreed over the form of this discussion and whether the response to free newspapers was ever an official item on a board meeting agenda in mid-1999 (Journalist2, 2012; Manager6, 2011; Manager7, 2012). Despite this disagreement, however, they unanimously remembered how free newspapers were perceived at the time:

„Free newspapers were not considered serious competition. Hence, Ringier management neither expected them to develop into an opportunity nor into a real danger” (Manager6, 2011)

Operating on their existing mental models (Weick, et al., 2005), RINGIER management classified the market entry of the free newspapers 20 MINUTEN and METROPOL as an incident of minor importance. Organizational actors assessed the new development by drawing on their business definition and professional self-conception, as the president of the board of directors explains:

“Our business was always classical journalism. This is why we did not take free newspapers seriously – in a journalistic sense – when they first appeared.” (Hartmeier & Seibt, 2006)

In the perception of RINGIER management, free newspapers did not meet the organization’s journalistic quality standards. In their view, free newspapers underperformed on criteria that typically mattered to newspaper production such as the quality of content (Manager6, 2011; Manager8, 2012). In particular, organizational actors argued that content produced by journalists is a valuable product that should not be given away for free (Journalist2, 2012; Manager8, 2012).

Hence, RINGIER management’s subsequent path of action was consistent with the way they made sense of the ecological change facing them. They abandoned negotiations with SCHIBSTED ASA involving an investment in 20 MINUTEN SCHWEIZ AG and did not respond⁷³ to the market launch of 20 MINUTEN and METROPOL in late 1999 and early 2000 (Consultant2, 2011; Lüönd, 2008b; Manager8, 2012). Thus, the first sensemaking cycle ends without providing momentum for further generative mechanisms.

In addition to introspection, three more aspects of the organizational context warranted RINGIER management’s course of non-action over time: First, in August 1999, the other two major Zurich-based incumbent publishers, TAMEDIA AG and NZZ GROUP, repositioned their free weekly TAGESANZEIGER DER STADT ZÜRICH as a spoiler publication to obstruct the market entry of 20 MINUTEN and METROPOL’s (Bakker, 2002a; Haller, 2009a). Second, MTG’s METRO was profitable in only one market in mid 1999 (Haas, 2006); thus, the overall economic viability of modern free dailies was questionable (Bakker, 2008a, 2008b; Haller, 2009a). Finally, the failure of foreign-owned free daily newspapers in Germany in July 2001 (Vogel, 2001) and METROPOL,

⁷³ Manager 8 (2012) points out that operational level changes to the flagship newspaper’s content and a short-term experiment with early morning home delivery (Haller, 2009a) were negligible.

which withdrew from Switzerland in February 2002 (Custer, 2008; Haller, 2009a) seemed to confirm the RINGIER managers' stance on free daily newspapers (Journalist2, 2012).

The *first teleological cycle (T1)* of importance to the development of free daily newspapers at RINGIER (Editor-in-Chief1, 2011) started with a failed acquisition attempt in February 2002. RINGIER sought to acquire rival publisher JEAN FREY AG, which marketed WELTWOCHTE, a prominent weekly newspaper that RINGIER was interested in (Meier & Häussler, 2010b). This acquisition attempt neither qualified as a strategic alternative to an earlier investment in 20 MINUTEN SCHWEIZ AG nor was the earlier course of action in response to free newspaper competition a necessary prerequisite to the start of this teleological cycle (Manager7, 2012). JEAN FREY AG found itself in financial difficulties at that time, and RINGIER intended to realize the opportunity to grow its domestic newspaper business (Meier & Häussler, 2010b). However, RINGIER lost the bid five weeks after signing a letter of intent (Meier & Häussler, 2010b; Persönlich, 2002b).

As a consequence of the lost acquisition and because the organization had been pursuing the idea of a weekly newspaper for quite some time (Meier & Häussler, 2010b), RINGIER's newspaper division established project resources to develop a weekly newspaper of its own in February 2002 (Persönlich, 2002b). To this end, the incumbent publisher hired a former WELTWOCHTE editor-in-chief (Persönlich, 2002b). Hence, the dissatisfaction with the failed acquisition of a rival publisher initiated a teleological process (Poole & Van de Ven, 2004) aimed at developing new newspaper concepts.

These efforts were significant for the subsequent development of free newspapers at Ringier for two main reasons (Editor-in-Chief1, 2011): First, the newspaper division began searching for new newspaper concepts, one of which would eventually incorporate some features of a free newspaper. This contributed to a first dialectic cycle (cf. arrow 2 connecting T1 and D1 in Figure 27) in which the notion of "for free" confronted advocates of RINGIER's traditional paid-for newspapers. Secondly, the resources established to develop new newspapers would eventually serve as the means to develop a free daily newspaper (cf. arrow 3 connecting T1 and T2 in Figure 27).

The first teleological cycle (T1) extends over a period of three years, from February 2002 to February 2005 (Editor-in-Chief1, 2011). The search for new newspaper concepts, whose reliance on a new business model was undetermined at the beginning of the cycle, proceeded in two waves. Public evidence of the first concept developed

by the former WELTWOCHÉ editor-in-chief refers to the project as a weekly newspaper that was ultimately not published either because the idea had lost momentum and/or because of unresolved distribution problems (Persönlich, 2002a, 2002b, 2002c, 2003). Evidence of a replacement concept (project title: “Project Z”) appeared in spring 2004. The industry journal PERSÖNLICH (2004h) reported that Ringier staff was working on a pilot for a free daily newspaper titled NEUE ZEITUNG (engl. “new newspaper”). However, a subsequent clarification that was never confirmed by RINGIER noted that NEUE ZEITUNG would only be free as an insert in RINGIER’s paid-for newspaper, BLICK, for the first three months after market launch, after which it would be sold by news agents (Persönlich, 2004i). According to PERSÖNLICH (2004i), the new press title was to be published as a color tabloid, positioned as a “sophisticated newspaper” addressing an “upper-class” readership. In spite of the project’s progress, the board of directors postponed the decision about NEUE ZEITUNG’s market launch (Persönlich, 2004b), and in February 2005, RINGIER’s head of the newspaper division declared that the project had “no priority” (Persönlich, 2005b). Thus, the first teleological cycle stopped when the committee controlling the resources for project implementation intervened and redirected the project resources of the newspaper division to the evaluation of free daily newspaper options (cf. arrow 3 connecting T1 and T2 in Figure 27) (Editor-in-Chief1, 2011).

Throughout the period in which the first teleological cycle operated, two more generative mechanisms influenced the path of free daily newspaper development at RINGIER: a sensemaking mechanism (S2) and a dialectic mechanism (D1).

The *second sensemaking cycle (S2)* began like the first. Between late 2002 and early 2003, SCHIBSTED ASA again approached Ringer management; however, this time they were not just offering a stake in 20 MINUTEN SCHWEIZ AG. The Norwegian publisher wanted to negotiate a buy-out of its shares in Swiss free daily newspaper operations and sell 20 MINUTEN SCHWEIZ AG (Manager7, 2012; Manager10, 2011). The reason for the offer was threefold: First, TAMEDIA AG had announced its interest in a stake in 20 Minuten Schweiz AG in autumn 2002 and threatened to launch EXPRESS, a free newspaper of its own if Schibsted ASA and the other investors turned their offer down (Manager10, 2011). Second, SCHIBSTED ASA had thus far invested more in its Swiss venture than had initially been intended and thus, reaching break-even would take longer than anticipated (Consultant2, 2011; Lüönd, 2008b; Manager10, 2011). Moreover, warding off EXPRESS would cost yet another CHF 5-10 million (Haller, 2009a; Manager10, 2011). In addition, Schibsted ASA had experienced a loss from

closing down free newspaper operations in Germany (Vogel, 2001) and was eager to invest more in its Spanish operations (Consultant2, 2011; Manager10, 2011).

At RINGIER, the buy-out offer represented a new instance of sensemaking. Judging on the basis of journalistic criteria, Ringier management still considered free newspapers “journalistic fast food” of an inferior quality (Manager7, 2012). However, compared to the first sensemaking cycle, economic criteria featured alongside journalistic criteria this time:

“[RINGIER management] realized that a free newspaper could be a working business model – albeit a risky one. Free newspapers are based on a single revenue stream. That was the one new insight” (Manager7, 2012).

Organizational actors realized that the underlying business model might be profitable as readers enjoyed “journalistic fast food” at times and in certain situations such as their morning commute to work on public transport (Manager7, 2012). However, commitment to the idea of a RINGIER free newspaper was still limited as journalistic concerns prevailed (Editor-in-Chief1, 2011; Journalist2, 2012; Manager7, 2012).

RINGIER’s CEO led the negotiations with SCHIBSTED ASA and welcomed the investment opportunity (Manager7, 2012; Manager10, 2011). At the time of these negotiations, in 2002 and 2003, the Swiss economy was in recession (Ringier, 2003, 2004). Overall, leading Swiss newspapers experienced a decline in advertising revenues of 25 percent in 2002 and the profit from advertising sales of RINGIER’s newspaper division fell by CHF 11 million (i.e., about 11 percent) compared to the previous fiscal year (Ringier, 2003). BLICK, RINGIER’s flagship newspaper, had lost 3.4 percent of its readership and circulation had decreased by 2.5 percent since 1999⁷⁴ (WAN, 1999-2009). Despite the decrease in newspaper revenues, pressure on newspaper operations was modest for four reasons: BLICK and its Sunday edition SONNTAGSBlick were still the most widely read Swiss newspapers, which made them attractive advertising media. Second, on average, rival newspapers suffered far more from the decrease in advertising spending (Ringier, 2003) and a decrease in readership. For example, Switzerland’s second most widely read daily newspaper, TAGES ANZEIGER owned by TAMEDIA AG, had lost 26 percent of its readership, with circulation shrinking by 11.3 percent (WAN, 1999-2009). Third, a new editor-in-chief was to provide the flagship daily newspaper with new momentum (Ringier, 2003). Finally, the entire RINGIER organization man-

⁷⁴ What portion of this readership loss can be attributed to competition by free dailies cannot be reproduced because of missing data (Masika, 2010).

aged to increase its profit margin and cash flow despite a bleak economic environment (Ringier, 2003).

RINGIER lost its bid as 20 MINUTEN's investors opted for a contract with TAMEDIA (Haller, 2009a). Even though the incumbent publisher's and TAMEDIA's offers for 20 MINUTEN SCHWEIZ AG were reportedly close, it seemed that the looming threat of the spoiler publication EXPRESS tilted the decision in favor of TAMEDIA (Editor-in-Chief4, 2011; Lüönd, 2008b; Manager7, 2012; Manager10, 2011).

While the Ringier CEO characterized the failure to buy 20 MINUTEN as his biggest mistake in 2003 (Persönlich, 2004g), the unsuccessful negotiations gave proponents of paid-for newspapers at RINGIER a boost (cf. arrow 1 connecting S2 and D1 in Figure 27) which was echoed in RINGIER employees' subsequent legitimizations of the organization's decision to stay out of the free daily newspaper business. Their arguments, demonstrating the plausibility of RINGIER's course of action at the time, surfaced in the first dialectical cycle.

The *first dialectic cycle (D1)* materialized between February 2004 and February 2005, when the idea of a free newspaper produced by RINGIER found support for a short period of time. For the first time in recent years, the notion of "for-free" was incorporated into a newspaper concept (cf. NEUE ZEITUNG in first teleological cycle) (Persönlich, 2004h) and had gained some support by early 2004. However, the idea of giving away a newspaper for free represented the anti-thesis (Poole & Van de Ven, 2004) to the thesis supported by proponents of the paid-for newspaper business model.

Interviewees indicated that, at that point, the anti-thesis was probably more readily embraced by RINGIER's publishing than journalist staff (Journalist3, 2012; Manager7, 2012). Nonetheless, the overall support for the anti-thesis was very limited and was not able to establish itself in 2004.

Since RINGIER had lost its bid for 20 MINUTEN and because 20 MINUTEN was steadily gaining readership (Persönlich, 2004j), the focus lay on a consistent story (Weick, et al., 2005) that made sense of RINGIER's focus on its existing newspaper business and non-engagement in the free newspaper business. The following statements represent the enactment of this story by RINGIER's head of the newspaper division in 2004. The RINGIER manager legitimized the incumbent publisher's stance on the basis of three main arguments: First, free and paid-for newspapers are different and cannot be compared along established performance measures (i.e., readership and circulation figures) surveyed by the industry's audit bureau (Persönlich, 2004j):

“A free newspaper is not a paid-for newspaper. Who ever compares the two, is comparing apples and oranges” (Weissberg, 2004).

Second, RINGIER’s flagship newspaper delivers a unique value to its readers in the form of journalistic investigations, opinions, and emotion, which free newspapers cannot deliver:

“Free newspapers promise readers something they cannot deliver: wholehearted journalism” (Persönlich, 2004c).

“[BLICK] investigates and reveals, it crafts reportages and it conducts interviews, it analyzes and it comments. BLICK means elaborate journalism. BLICK is curious, unsettling, and sassy [...] [free newspapers in contrast] snip the endless supply of newswire messages and arrange these ‘appetizers’ in neat little boxes, garnished with a few stories researched on their own: Voilà, the hors d’oeuvre are ready” (Weissberg, 2004).

Finally, the unique value captured by terms such as “good journalism” or “quality journalism” requires readers’ financial contribution and readers should consider a product that enhances such value worth paying for:

“Only good journalism makes a good newspaper possible. And that comes at a price. Diligent research, a comprehensible language, exclusive stories, intelligent comments and striking pictures: These things are not for free. This is why BLICK cannot be for free [...] BLICK requires the reader’s financial contribution” (Weissberg, 2004).

As the account of the first teleological cycle reported, the intervention of resource controllers ultimately led to the discontinuation of the newspaper concept NEUE ZEITUNG (Persönlich, 2004b, 2005b). The abandonment of this project in 2004 is both an indicator of the consistent enactment of RINGIER’s stance on free newspapers after having lost its bid for 20 MINUTEN SCHWEIZ and of the dominance of the thesis that rejected the idea of a RINGIER-owned free newspaper at the end of the first stage of the case study. Thus, the first dialectic cycle ends with the rejection of the anti-thesis and without providing momentum for further action toward the development of a free newspaper, which will begin in stage two.

5.2.2.4 Consequences and conclusion

At the end of the first stage, RINGIER was an incumbent publisher without a free newspaper – unlike its domestic rival TAMEDIA AG. TAMEDIA AG, which had taken over 20 MINUTEN in 2003, started developing the free newspaper into a viable venture (Manager9, 2011; Manager10, 2011). The free daily 20 MINUTEN (782,000 readers)

surpassed BLICK (736,000 readers) in terms of audited readership for the first time in autumn 2004 (Persönlich, 2004f).

The thesis that free newspapers are an inferior product of low quality journalism was dominant at RINGIER at the end of 2004; however, a number of organizational actors were aware of the possibility that free newspapers might at least be attractive from an economic stance (Manager7, 2012). However, the fact that RINGIER had lost its bid for 20 MINUTEN SCHWEIZ AG in 2003 reinforced the support of the existing paid-for newspaper business model. This position was consistently enacted when initial attempts to include the notion of “for-free” were terminated and BLICK’s loss of its number one readership position was justified and framed in 2004 (Weissberg, 2004).

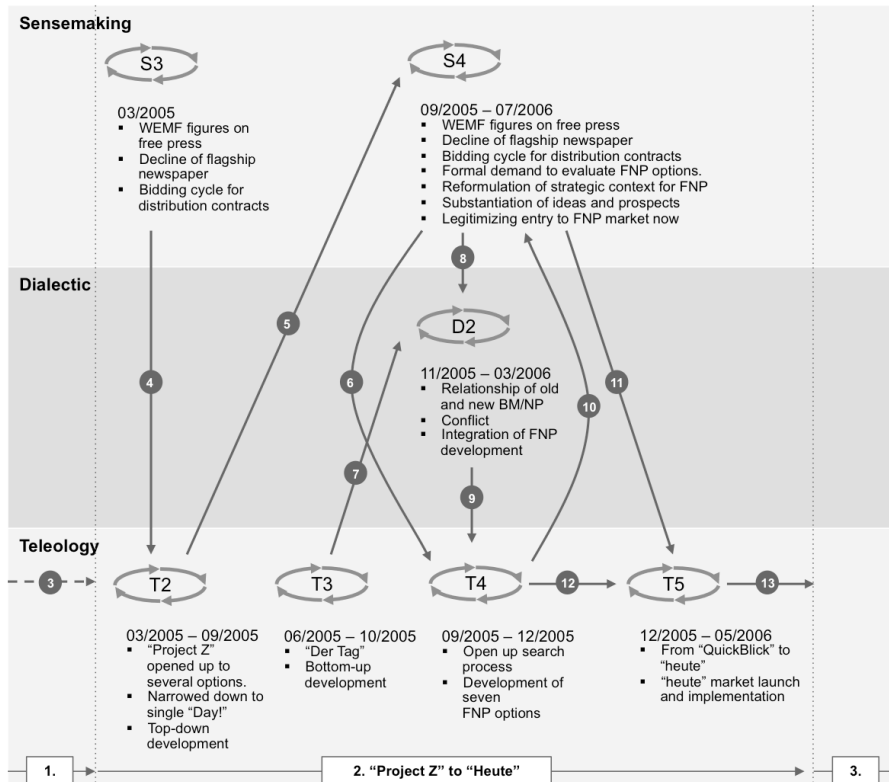
Despite the argument that free dailies cannot be compared to paid-for daily newspapers (Persönlich, 2004j), RINGIER relaunched BLICK in tabloid format in mid-2004 to cater to readers’ seeming preference for more handy-sized newspapers (Persönlich, 2004a, 2004e). However, copying this successful feature of free daily newspapers inadvertently made BLICK more similar to 20 MINUTEN, which subsequently put RINGIER under more pressure (Manager3, 2011; Persönlich, 2004e, 2006d).

In conclusion, there were four generative mechanisms at work at the first stage in Ringier’s process of dealing with the new free newspaper competition: Sensemaking cycles were activated twice when an outside opportunity triggered sensemaking at the highest RINGIER management levels. The first sensemaking cycle (S1) ended without triggering further action. The second sensemaking instance (S2) contributed to a dialectic cycle that favored the existing business model because previous negotiations with SCHIBSTED ASA had not produced a favorable outcome. The teleological cycle (T1) that worked toward new newspaper concepts also fueled the first dialectic confrontation (D1) between the thesis and anti-thesis, but as the debate shifted in favor of the old model as part of the enactment of the outcome of the second sensemaking cycle, the first teleological cycle discontinued. Finally, the dialectical cycle ended the case study’s first stage without triggering further action toward the development of a free newspaper.

5.2.3 Stage 2: PROJECT Z to HEUTE

Stage 2 in Figure 28 includes all events from the start of the first top-down innovation project to develop a free newspaper at RINGIER in March 2005 to the market launch in May 2006 of HEUTE (engl. today), RINGIER's first general interest free daily in Switzerland.

Figure 28: Mechanisms operating throughout stage 2 (03/2005 – 05/2006)



Source: Own representation.

5.2.3.1 Causal conditions

At the beginning of second stage of the case study, RINGIER was an incumbent publisher without a foothold in the free newspaper business, with a tabloid-format paid-for daily flagship newspaper in decline, and harboring the belief that the reader is and should be willing to pay for "quality journalism" (Manager1, 2011; Weissberg, 2004).

In spring 2005, RINGIER was acutely aware of 20 MINUTEN's growth in readership and the potential of its rival, TAMEDIA AG, to overtake Ringier as the number one newspaper publisher in the German-speaking part of Switzerland. In addition, SWISS FEDERAL RAILWAYS (SBB) was about to request bids for the next five-year contractual period, which would allow publishers to distribute free newspapers at their highly frequented train stations in the Zurich area (Consultant1, 2011; Schwarz, 2011).

5.2.3.2 Actions

The ongoing stream of activities inside and outside the organization provided new instances of sensemaking as well as new information to make sense of past and present experience (cf. Weick, et al., 2005). The steady decline of the flagship newspaper, which built on the traditional paid-for newspaper business model, and the simultaneous rise of 20 MINUTEN put more pressure on the publisher to find new ways to do business and evaluate competition. This initiated the *third sensemaking cycle (S3)*.

In retrospect, interviewees (Editor-in-Chief1, 2011; Manager7, 2012) remembered that the decreasing performance of and outlook for BLICK in the advertising and readership market as compared to 20 MINUTEN regenerated the interest in free newspapers from an economic perspective. The financial argumentation in favor of the free newspaper business model had first formed at RINGIER when a takeover of 20 MINUTEN SCHWEIZ AG was scrutinized in the second sensemaking cycle in 2003. However, the loss of that investment opportunity to TAMEDIA AG had subsequently led to a repression of support for the idea of a RINGIER free newspaper. In early 2005, however, the emphasis on potential financial gains from a free newspaper resulted in a decision by the executive board to commission RINGIER's head of the newspaper division "to have a look at different free newspapers" (Editor-in-Chief1, 2011) (cf. arrow 4 connecting S3 and T2 in Figure 28). Thus, the result of the third sensemaking cycle was the initiation of a teleological process (T2) at the operational level within the newspaper division and marked the start of the first free newspaper innovation project at RINGIER.

The top-down basis for the start of the *second teleological cycle (T2)* seems to have been neither very structured nor particularly specific. RINGIER's head of the newspaper division, who had a journalistic background, collaborated with the head of magazines, who had a publishing background, to evaluate different conceptual options from a journalistic and commercial stance (Editor-in-Chief1, 2011). In addition, they could draw on project resources established for the project NEUE ZEITUNG (cf. arrow 3 connecting T1 and T2 in Figure 28).

To identify conceptual options, the head of the newspaper and his team identified characteristics of paid and free newspapers in different national markets. By varying the concept along five dimensions (i.e., distribution time and area, content, revenue streams, and medium) primarily referring to issues of the value proposition and limiting attention to the creation and capturing of the proposed value, they reported nine parallel options for a new urban newspaper product (Ringier, 2005), as Table 36 illustrates:

Table 36: (Free) urban newspaper options in August 2005

Concept	Pro	Contra
1. <i>Free morning newspaper</i>	<ul style="list-style-type: none"> ▪ Well established concept in terms of content and production ▪ High reader interest ▪ Acquire existing know-how 	<ul style="list-style-type: none"> ▪ Direct competition with 20 MINUTEN ▪ Little originality ▪ Exchangeable
2. <i>BLICK light (i.e., version with reduced content for free)</i>	<ul style="list-style-type: none"> ▪ Familiar brand name ▪ Existing production structures 	<ul style="list-style-type: none"> ▪ Might replace or trade-down BLICK ▪ Danger of reader confusion ▪ Brand aversion
3. <i>Free evening/afternoon newspaper</i>	<ul style="list-style-type: none"> ▪ Targeting commuters on their way home ▪ No direct newspaper competition ▪ Cheap print slot ▪ Real innovation 	<ul style="list-style-type: none"> ▪ Readers are tired ▪ Not attractive for daily specials advertising ▪ Little new news in the morning ▪ Used for just a few hours ▪ Little attractive
4. <i>Free newspaper with two daily editions</i>	<ul style="list-style-type: none"> ▪ Same as evening newspaper ▪ High market penetration 	<ul style="list-style-type: none"> ▪ Same as evening newspaper ▪ High distribution cost
5. <i>Free sports newspaper</i>	<ul style="list-style-type: none"> ▪ Male target group ▪ Precise targeting 	<ul style="list-style-type: none"> ▪ Male target group ▪ Costly journalism ▪ Interest in sports overrated ▪ Seasonality and limited news ▪ Attacking BLICK
6. <i>Free weekly newspaper</i>	<ul style="list-style-type: none"> ▪ Low cost (Print, Distribution, Content) 	<ul style="list-style-type: none"> ▪ No news product ▪ Advertising volume/ reach ▪ Editorial effort ▪ Not targeting commuters
7. <i>Low-priced newspaper</i>	<ul style="list-style-type: none"> ▪ Not profiting from the free newspaper image ▪ Sales revenues (limited) 	<ul style="list-style-type: none"> ▪ Needs to be sold ▪ Costly sales process ▪ Must fulfill higher reader expectations
8. <i>Mobile news</i>	<ul style="list-style-type: none"> ▪ Seminal 	<ul style="list-style-type: none"> ▪ Too early and costly
9. <i>Free regional newspaper</i>	<ul style="list-style-type: none"> ▪ Low distribution cost ▪ Local content ▪ Focused target audience ▪ Preparation of national edition 	<ul style="list-style-type: none"> ▪ Limited attractiveness for national advertising campaigns ▪ Limited circulation

Source: Based on RINGIER company document (Ringier, 2005).

The project team pursued these multiple divergent ideas (cf. Van de Ven, et al., 2008) until August 2005, when they decided to narrow their search and proceed with their preferred option (Editor-in-Chief1, 2011). The preferred option was to launch a second free daily morning newspaper with three critical features (Ringier, 2005): Firstly, it would compete with 20 MINUTEN as a me-too of limited novelty. Secondly, it would allow minimizing risk in setting up operations since existing know-how of the business model and market potential could be acquired nationally or internationally.

Finally, it was independent of the BLICK brand and would not directly compete with RINGIER's flagship newspaper.

The preferred option, titled DAY!, was subsequently developed into a more substantial concept and brought to the attention of the group executive board in September 2005 (Editor-in-Chief1, 2011). This stimulated the fourth cycle of sensemaking (cf. arrow 5 between T2 and S4 in Figure 28).

The *fourth sensemaking cycle (S4)* started in September 2005, when the group executive board reconvened to discuss the matter of free newspapers (Manager1, 2011) and lasted until a few months after the market launch of RINGIER's first free daily in Switzerland.

In autumn 2005, official circulation and readership figures signaled BLICK's further decline. With 717,000 readers, RINGIER's flagship daily had lost another 2.6 percent in readership between the 2004 and 2005 surveys, while the top ten paid-for newspapers had lost only an average of 1.7 percent in readership (WAN, 1999-2009). Additionally, the newspaper division's sales figures fell by CHF 1 million (-1.0 percent) and advertising revenues by CHF 1.6 million (-1.8 percent) in 2005 (Ringier, 2006b). During the same time period, 20 MINUTEN was profitable⁷⁵ (Manager9, 2011; Manager10, 2011) and had increased its readership by nearly 26 percent from 782,000 to 984,000 readers (WAN, 1999-2009). Overall, RINGIER had lost its lead position in the Swiss newspaper market in terms of net readership reach in 2005 and incurred the greatest relative percentage decline in gross advertising revenues compared to the other top six Swiss newspaper publishers⁷⁶ (Ringier, 2006a).

In September and October 2005 meetings, the group executive board made sense of these competitive pressures and the further decline of the existing newspaper business. The board was in support of assessing options for a RINGIER free newspaper because of the business model's economic potential. The following statements by the president of the board summarize how the attitude toward free dailies had changed:

"In the beginning it [free dailies] did not bother us because 20 MINUTEN was a Zurich-focused project. We are a nationally, not a regionally, oriented publishing house. Today, of course, we regret this. However, it is never too late. There are cities like Stockholm where free dailies that started later were able to catch up with the market leader without the incumbent boulevard press really suffering. Plans exist. [...] We have a lot of respect

⁷⁵ According to Benini (2006), 20 MINUTEN achieved a profit of CHF 16 million in 2005.

⁷⁶ I.e., TAMEDIA AG, NZZ GROUP, AZ MEDIA, EDIPRESSE, ESPACE MEDIA, AND BASLER ZEITUNG MEDIEN.

for Zurich. 20 MINUTEN is hugely successful and well crafted. Competition would be very expensive. We need to carefully consider where we invest.” (DerStandard, 2005)

Simultaneously, the viability of the traditional newspaper business model due to its superior journalistic value was still clearly emphasized:

“People want to be informed – learn about context and connections. This is something only real journalism can achieve, really. Free newspapers do not explain the world. People watch a lot of television, consume information on the Internet and from free dailies, all of which they do not really comprehend. Brief and plain boulevard journalism is an ideal means to address this. [...] We see boulevard this way. Sex and crime has no future. It is about real journalism”. (DerStandard, 2005)

The group executive board’s discussion was more specific this time than in the previous sensemaking cycle (S3) and its information requirements more specific than the outcome of the second teleological cycle could provide. The group executive board was unwilling to proceed merely on the basis of DAY! (Editor-in-Chief1, 2011; Manager1, 2011). The board ordered the head of newspapers to present them with a set of options that was more systematically selected as well as more substantially verified and justified (Consultant1, 2011). These requirements initiated the fourth teleological cycle (cf. arrow 6 between S4 and T4 in Figure 28) and led to a re-divergence in simultaneously pursued ideas of potential new free newspaper business models.

Moreover, to commission further work on free newspaper options, the Ringier group executive board modified the organization’s strategic context (cf. Burgelman, 1983b) by defining guidelines for investments in the free newspaper business (Ringier, 2006a):

“(1) RINGIER seeks to strengthen its market position in the Swiss newspaper business. (2) RINGIER considers the market for free newspapers a sustainably attractive market. (3) RINGIER seeks to make investments that have a sustainably positive impact on its flagship newspaper BLICK.” (Ringier, 2006a)

These strategic considerations legitimized the new interest in free newspapers and represented a consistent enactment (Weick, et al., 2005) of the way current developments had been interpreted. The board also provided input to the second dialectic cycle (cf. arrow 8 between S4 and D2 in Figure 28) by means of assigning a potential RINGIER free newspaper a supportive role via-à-vis its flagship newspaper, BLICK.

In order to understand the subsequent progression of the fourth sensemaking cycle, we need to turn next to the teleological cycles three (T3) and four (T4) as well as the second dialectical cycle (D2). These three instances of generative mechanisms operate

in parallel with the fourth sensemaking cycle and share direct (T4 and D2) and indirect relationships (T3) with it.

The group executive board's assignment to systematically evaluate free newspaper options initiated the *fourth teleological cycle (T4)*, which, lasted from September to December 2005. The head of the newspaper division re-entered the search for different newspaper options (Editor-in-Chief1, 2011). To support intra-organizational efforts, the head of newspapers and the head of magazines hired an external consultant to assist them in the innovation process (Editor-in-Chief1, 2011). Internal resources were limited and both RINGIER managers had to administer the daily business of their respective business units along with attending to the free newspaper project (Consultant1, 2011).

Two specific activities aided a project team comprised of RINGIER staff and consultants in developing new ideas that subsequently entered the organization's search and evaluation of new business model configurations: First, the project team screened the range of existing free newspaper configurations and visited Stockholm first hand to experience one of the most vibrant free newspaper markets at the time (Consultant1, 2011; Editor-in-Chief1, 2011). Particularly, field interviews with a Swedish publisher, BONNIER, proved helpful. BONNIER had experienced the advent of METRO in 1995 and responded only seven years later with STOCKHOLM CITY, a free daily of its own. The interview alerted the project team to two issues (Editor-in-Chief1, 2011): First, possible second mover disadvantages such as higher investments to achieve the same readership numbers as the first mover, accompanied by a potentially negative me-too image; and second, their estimates of the potential investment volume for RINGIER's plans, which surpassed the project team's first estimates by 50 percent.

The second activity that generated new ideas for the innovation process was a systematic comparative analysis of dimensions and characteristics along which newspapers varied (Consultant1, 2011). In the categories of the RINGIER managers, these included the characteristics "editorial concept" (e.g., paper format, color, content, writing style, target readership, etc.), which primarily represents aspects of the newspaper's value proposition for the readers' market, as well as "publishing concept" (e.g., production, distribution time, distribution location and channels, revenue sources, advertising clients, etc.), which refers to matters of value creation, value communication and transfer, value capture, and the value proposition for advertising clients (Consultant1, 2011; Manager3, 2011). For each dimension (e.g., distribution time), the project team identified existing and feasible, yet not currently nationally marketed

characteristics (e.g., morning, afternoon, evening). Together, these dimensions and characteristics served as building blocks for seven new newspaper options presented in Table 37.

Table 37: (Free) newspaper options in December 2005

Concept	Description	Assumption-driven assessment
1. <i>DAY!</i>	<ul style="list-style-type: none"> ▪ Free daily morning newspaper ▪ Direct competition with 20 Minuten ▪ 5 regional editions ▪ 40 pages 	<ul style="list-style-type: none"> ▪ Market needs to be large enough for two free dailies ▪ Risk of cannibalizing BLICK ▪ High investment
2. <i>DER TAG</i>	<ul style="list-style-type: none"> ▪ Free daily evening newspaper ▪ Differentiated from 20 MINUTEN ▪ 5 regional editions ▪ 32 pages 	<ul style="list-style-type: none"> ▪ Market needs to sustain two differentiated free dailies ▪ There needs to be a sufficiently large potential readership in the evening ▪ Risk of cannibalizing BLICK ▪ High investment
3. <i>QUICKBLICK</i>	<ul style="list-style-type: none"> ▪ Free daily evening newspaper ▪ Positioned to complement BLICK ▪ 3 regional editions ▪ 32 pages 	<ul style="list-style-type: none"> ▪ A RINGIER free daily needs to attract more new types of readers (younger, female) ▪ The advertising market needs to accept BLICK and a free daily as advertising pool ▪ In support of BLICK ▪ Medium risk and investment
4. <i>BLICK for free</i>	<ul style="list-style-type: none"> ▪ Turn BLICK into a free daily morning newspaper ▪ National (German-speaking CH) 	<ul style="list-style-type: none"> ▪ Assumes business model of Blick is no longer sustainable ▪ Assets of BLICK need to facilitate publishing it as a free daily ▪ Boulevard free daily would need to draw level with 20 MINUTEN ▪ Puts BLICK at high risk
5. <i>BLICK as free/paid-for hybrid</i>	<ul style="list-style-type: none"> ▪ Turn BLICK into a part free part low-priced daily morning newspaper ▪ National (German-speaking CH) 	<ul style="list-style-type: none"> ▪ Assumes decline in readership is due to price ▪ Distribution needs to allow price discrimination ▪ Advertising gains from larger readership need to outweigh the loss in newspaper sales ▪ Puts BLICK at risk
6. <i>Distribution investment</i>	<ul style="list-style-type: none"> ▪ BLICK remains a paid-for daily newspaper ▪ Improve on BLICK distribution with handout people and early morning home delivery ▪ National (German-speaking CH) 	<ul style="list-style-type: none"> ▪ Needs to attract more readers through distribution improvements ▪ In modest support of BLICK ▪ No entry to free newspaper market
7. <i>No activity</i>	<ul style="list-style-type: none"> ▪ No radical newspaper changes ▪ Gradual improvements on existing newspapers 	<ul style="list-style-type: none"> ▪ Assumes that nobody else successfully launches a second free daily ▪ Assumes that Blick's business model is sustainable ▪ Low investment and low risk ▪ Does not meet strategic context's guidelines

Source: Based on RINGIER company document (Ringier, 2005).

Options one through five in Table 37 were based on the idea of a free daily newspaper. Options four to six considered changes to BLICK's flagship newspaper – from modest changes to distribution (option six) to a radical transformation of the boulevard newspaper's business model (option four). In addition, option seven detailed possible assumptions behind continuing the previous path of action, which exclusively focused on the traditional newspaper business model.

It is important to note that the newspapers and activities suggested in Table 37 represented options. These seven were included in part because they were the outcome of the innovation process and in part because they represented paths of action previously suggested by organizational members or discussed in the public domain (Consultant1, 2011; Editor-in-Chief1, 2011; Haller, 2009a). For example, even though turning BLICK into a free newspaper was one of the options, it was neither seriously considered nor was its feasibility backed by calculatory projections; however, it was discussed and suggested by industry experts at the time (Editor-in-Chief1, 2011). In contrast, option two, DER TAG, had independently developed in another part of the RINGIER organization in Zurich as a bottom-up initiative. It was integrated into the top-down initiated project in November 2005 (cf. teleological cycle T3 below).

In December 2005, the project team presented the seven options above to the group executive board. Basing his argument on hypothesis-driven assumptions, calculatory projections and pilot newspaper prints, the head of the newspaper division explained why they had chosen DAY! and QUICKBLICK from the seven options (Consultant1, 2011; Editor-in-Chief1, 2011). The project team based the concept of DAY!, which involved imitating the proven business model of free morning daily in direct competition with 20 MINUTEN, on two assumptions (Ringier, 2005): First, Switzerland's German-speaking readership and advertising market needed to sustain two free dailies, and second, the gains from combined advertising of DAY! and BLICK had to offset potential cannibalization effects. The concept of QUICKBLICK, in contrast, which suggested reinventing the free daily business model by crafting a consistent business model for a free evening newspaper, was based on two different premises: First, there needed to be a sufficiently large readership group willing to read an evening newspaper that demographically complemented that of BLICK, and second, the advertising market had to accept BLICK and QUICKBLICK as a single advertising pool. The project team's approach in backing these recommendations resembled Govindarajan and Trimble's (2004) theory-focused planning methodology, and the business

model drafts they crafted incorporated both narrative and calculatory characteristics (Doganova & Eyquem-Renault, 2009).

Finally, the information that these established options provided fed back into the ongoing sensemaking cycle (S4) (cf. arrow 10 between T4 and S4 in Figure 28). Moreover, the evaluation of options and the decision to implement QUICKBLICK initiated the subsequent teleological cycle (T5), which worked towards newspaper development and implementation (cf. arrow 12 between T4 and T5 in Figure 28).

As noted before, option two in Table 37 entered the innovation project from an unforeseen direction. Working with a RINGIER project manager, a journalist employed at BLICK developed DER TAG (engl. “the day”) bottom-up as an idea for an evening boulevard newspaper. Their activities are manifested in the *third teleological cycle (T3)* in Figure 28.

RINGIER had introduced a new innovation pool for employees’ ideas in mid-2006 and DER TAG was the first idea entered (Consultant1, 2011; Editor-in-Chief1, 2011). The search process to develop the innovation idea and substantiate the underlying business model was very similar to the work undertaken by the head of the newspaper’s project team (i.e., substantiating the editorial concept, estimating advertising revenues, etc.) (Editor-in-Chief3, 2011; Persönlich, 2005c). However, this bottom-up initiative ran completely separate and was supervised by RINGIER’s CEO.

The industry journal PERSÖNLICH (2005c) provided a description of DER TAG in the first days of November 2005, which triggered public and free newspaper opponents’ interest in this project (cf. arrow 7 between T3 and D2 in Figure 28) and fueled the second dialectic cycle.

Table 38 comparatively illustrates the business models for DER TAG, DAY! and QUICKBLICK, the latter two of which represent the project team’s preferred options. All three options exclusively build on advertising revenues and target commuters in urban areas. With regard to the value proposition, DAY! represents an imitation of METRO and 20 MINUTEN, whereas DER TAG and QUICKBLICK represent proposals for boulevard newspapers for the afternoon/evening. However, while the distribution timing is identical, DER TAG distinguishes itself⁷⁷ from QUICKBLICK in its broader geographical focus and an identity that is more detached from BLICK.

⁷⁷ The fact that the business model of HEUTE implemented in May 2005 has features of both QUICKBLICK and DER TAG created competing claims over the source of this innovation.

Table 38: Business models of DER TAG , DAY!, and QUICKBLICK (12/2005)

Business model element	DER TAG	DAY!	QUICKBLICK
<i>Value proposition</i>	<i>Unit of business</i> <ul style="list-style-type: none"> ▪ Boulevard newspaper <i>Customer</i> <ul style="list-style-type: none"> ▪ Urban commuters in Zurich, Berne, Basel, eastern and central Switzerland <i>Customer Value</i> <ul style="list-style-type: none"> ▪ Free boulevard news ▪ 32 pages ▪ 8 to 10 pages of editorial content (including longer texts) ▪ Catch up on what happened throughout the day ▪ News, lifestyle and free time 	<i>Unit of business</i> <ul style="list-style-type: none"> ▪ Daily newspaper <i>Customer</i> <ul style="list-style-type: none"> ▪ Urban commuters in Zurich, Berne, Basel, eastern and central Switzerland <i>Customer Value</i> <ul style="list-style-type: none"> ▪ Free news ▪ 40 pages ▪ Content of general interest comparable to 20 MINUTEN 	<i>Unit of business</i> <ul style="list-style-type: none"> ▪ Boulevard newspaper <i>Customer</i> <ul style="list-style-type: none"> Urban commuters in Zurich, Berne, and Basel <i>Customer Value</i> <ul style="list-style-type: none"> ▪ Free boulevard news complementary to BLICK ▪ 32 pages
<i>Value capture</i>	<ul style="list-style-type: none"> ▪ Advertising revenues 	<ul style="list-style-type: none"> ▪ Advertising revenues 	<ul style="list-style-type: none"> ▪ Advertising revenues

Note: Business model configurations as of December 2005. Source: Based on Persönlich (2005c) and Ringier (2005).

From spring to autumn 2005, the development of free newspapers (i.e., the anti-thesis) did not directly contrast with organizational actors who rejected the notion “for-free” in favor of the traditional newspaper business model. However, this changed with the *second dialectic cycle (D2)*, which started in early November 2005.

As the bottom-up and top-down initiatives involved in developing a free newspaper concept progressed, they drew more attention: The head of the newspaper division’s project team placed a bid for a distribution contract with SWISS FEDERAL RAILWAYS, which caught the attention of an industry journal (Persönlich, 2005a). At the same time, the two men who had developed the bottom-up initiative DER TAG evaluated market interest with potential clients, in the process of which information leaked to PERSÖNLICH (2005c). Finally, the prospects and concept of DER TAG were discussed internally in a meeting with the RINGIER CEO and the BLICK editor-in-chief (Consultant1, 2011; Editor-in-Chief3, 2011).

The representative of the incumbent boulevard newspaper (i.e., thesis) strongly rejected the idea of a RINGIER free newspaper (Consultant1, 2011; Editor-in-Chief3, 2011). The BLICK editor-in-chief at that time opposed investment in a potential internal contestant, when BLICK could have used these financial resources to stabilize its market position (Consultant1, 2011; Editor-in-Chief1, 2011). While there is room for

arguing⁷⁸, interviewee interpretations suggest that the conflict between thesis and anti-thesis materialized and culminated in the temporary laying off of the journalist who had come up with the idea for DER TAG by the BLICK editor-in-chief (Consultant1, 2011; Editor-in-Chief1, 2011; Editor-in-Chief3, 2011; KleinReport, 2005; Manager1, 2011).

The editor-in-chief's opposition to the free daily newspaper business model was boundedly rational (Simon, 1991) from the incumbent newspaper's perspective. BLICK contributed substantially to RINGIER's free cash flows and a new free daily might well have cannibalized existing business (Haller, 2009a) and thus threatened the editor-in-chief's interests (cf. Govindarajan & Trimble, 2005a; Sosna, et al., 2010).

However, this position and the dismissal of the journalist who had developed DER TAG counteracted the action projected from sensemaking cycle four. Hence, the fourth sensemaking cycle intervened in the second dialectic cycle (cf. arrow 8 between S4 and D2 in Figure 28). The RINGIER CEO brought the two hitherto independent initiatives together (Manager7, 2012), while the head of the newspaper presented DER TAG as one of the evaluated options in the fourth teleological cycle. At the same time, he hired the previously dismissed journalist for his free newspaper project staff (Consultant1, 2011; Editor-in-Chief1, 2011; Editor-in-Chief3, 2011) (cf. arrow 9 between D2 and T4 in Figure 28).

These events influenced the presentation of the free newspaper options in December 2005 in terms of how much care was devoted to justifying investment in a free daily project and how the free newspaper's relationship with BLICK was framed (Consultant1, 2011) (cf. arrow 10 between T4 and S4 in Figure 28).

In March 2006, the head of the newspaper division finally introduced Ringier's free daily to the public (Persönlich, 2006i). In reference to that event, a RINGIER manager emphasized the coexistence of thesis and anti-thesis on the readership market as well as possibilities for collaboration in the advertising market, which is in line with the temporary equilibrium that results from the second dialectical cycle. The argument by the head of newspapers builds on synergies, differences – making cannibalization unlikely – and continued support for BLICK:

⁷⁸ The interpretation that the aforementioned journalist was dismissed because of his plans for a free newspaper is contested. A RINGIER spokesperson denied this interpretation and the BLICK editor-in-chief was neither willing to confirm nor reject it in November 2005 (KleinReport, 2005).

“We are forced to launch new offers. And I see good ways of combining [...] [the RINGIER free newspaper] with BLICK in the advertising market. [...] We can advertise tomorrow’s news stories of BLICK in [...] [the RINGIER free newspaper].” (Persönlich, 2006i)

“[The RINGIER free newspaper] and BLICK are two completely different newspapers. [...] Free newspapers are smooth like Teflon: They do not aspire to provoke or disseminate opinions. Their readers – the commuters – want an update of current events. A boulevard newspaper in contrast, reveals, proclaims an opinion, and provokes. We need to respect these two kinds of newspapers.” (Persönlich, 2006i)

“Readership numbers contradict the assumption that free newspapers cannibalize all of paid-for newspapers’ readers. The industry likes mocking BLICK, however, they overlook the fact that its readership numbers have been fairly constant. [...] In addition, we are not neglecting BLICK. We will introduce next steps in its development as early as April and further steps will follow.” (Persönlich, 2006i)

The perception of the information that the fourth teleological cycle provided to the ongoing fourth sensemaking cycle (S4) allowed the group executive board to verify its interpretations of the viability of the free daily newspaper business and update its legitimization of engagement in the free newspaper business (Weick, et al., 2005). This was reflected in the above statement by the head of newspaper division (cf. Persönlich, 2006i), in the CEO’s stakeholder address in March 2006:

“late last November saw the first appearance, in Prague, of 24 hodin. It’s our first free newspaper and it won’t be the last. I confess that in the past, perhaps for too long, we have not exactly warmed to the idea of free newspapers. Which makes it all the more important to be ready for the future and face it with vigilance.” (Ringier, 2006b),

In an interview conducted one day after the market launch of RINGIER’s first new free daily, the president of the board addressed the question of why the company had waited so long to embrace the idea of free dailies and why newspaper publishing is a resilient business:

“We experienced something that can happen to you in any industry and any company. We have been doing for too long what we have been good at. [...] I have been in this business for quite a long time. And the end of my business has been forecasted a number of times. I don’t believe in these prophecies. Whether it will be normal or electronic paper in the end. It is not the case that old technologies are completely pushed aside by new ones. We still have cinemas despite television.” (Hartmeier & Seibt, 2006)

As part of enactment, the board decided to have the project team substantiate the QUICKBLICK option, which provided the impetus for the fifth teleological cycle (cf. arrow 11 between S4 and T5 in Figure 28).

Activity driven by the *fifth teleological cycle (T5)* began with new, more specific goals and the approval of all resource-controlling committees to substantiate a market-able free newspaper concept. The head of the newspaper division worked on the QUICKBLICK concept with 11 project staff members, covering editorial, publishing, print, and distribution matters (Ringier, 2005). The project team was involved in developing QUICKBLICK's business model until the end of January 2006 (cf. Table 39) along four business model elements (Ringier, 2006a):

Table 39: Business model of QUICKBLICK (01/2006) and HEUTE (03/2006)

Business model element	QUICKBLICK	HEUTE
<i>Value proposition</i>	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> ▪ Color evening newspaper in tabloid format <p><i>Customer</i></p> <ul style="list-style-type: none"> ▪ Young commuters in Zurich, Berne, and Basel aged 14 to 29 on their way home between 4 and p.m. ▪ Advertisers targeting the German-speaking part of Switzerland <p><i>Customer Value</i></p> <ul style="list-style-type: none"> ▪ Support readers in the transition from work to leisure time in a useful and congenial way ▪ Clear and simple, non-polarizing language ▪ Unique content elements from radio/internet journalism ▪ Daily soft and hard news that matter to the life of the core target group ▪ Access to a young target group with high reach in German-speaking part of Switzerland with BLICK/ QUICKBLICK advertising pool 	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> ▪ Color evening newspaper in tabloid format <p><i>Customer</i></p> <ul style="list-style-type: none"> ▪ Young and urban people (mainly commuters) on their way home or their way to evening leisure activities; aged 15 to 49, household income CHF 8,000 plus. <p><i>Customer Value</i></p> <ul style="list-style-type: none"> ▪ Support readers in the transition from work to leisure time in a useful and congenial way ▪ Effortless to consume, positive tone and focus on pictures ▪ Clear and simple, non-polarizing language ▪ Unique content elements from radio/internet journalism ▪ Update on hard news that matters to the life of the core target group and soft news with a focus on nightlife and leisure activities ▪ Access to a young target group with high reach in German-speaking part of Switzerland with BLICK/ HEUTE advertising pool

(Table continued on next page)

<i>Value creation</i>	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> ▪ Shared/endorsed branding ▪ Small editorial team (20 FTE) ▪ Integrated newsroom with BLICK ▪ BLICK, SONNTAGSBLICK, and BLICK ONLINE supply content like a news wire ▪ BLICK publishing sells QUICKBLICK ad displays and combined advertising pool <p><i>Value network / Coordination</i></p> <ul style="list-style-type: none"> ▪ Decentralized printing ▪ Distribution contract with SBB 	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> ▪ Independent branding ▪ Small editorial team (15 FTE) ▪ Separate newsroom in different building integrating production and editorial staff ▪ BLICK publishing sells HEUTE ad displays and combined advertising pool <p><i>Value network / Coordination</i></p> <ul style="list-style-type: none"> ▪ Decentralized printing ▪ Distribution contract with SBB ▪ Contracts with news wires, PR agency
<i>Value communication and transfer</i>	<p><i>Communication</i></p> <ul style="list-style-type: none"> ▪ Advertisements in RINGIER print titles. ▪ Local radio advertisements ▪ Handout people ▪ Introductory discounts on ad displays <p><i>Transfer</i></p> <ul style="list-style-type: none"> ▪ 200,000 copies on distribution racks at train stations and public transport stops ▪ Handout people 	<p><i>Communication</i></p> <ul style="list-style-type: none"> ▪ Advertisements in RINGIER print titles. ▪ Local radio advertisements ▪ Handout people ▪ Introductory discounts on ad displays <p><i>Transfer</i></p> <ul style="list-style-type: none"> ▪ 200,000 copies on distribution racks at train stations, public transport stops, and other city center locations on commuter routes ▪ Handout people
<i>Value capture</i>	<ul style="list-style-type: none"> ▪ Advertising revenues from national (i.e., German speaking part of Switzerland) campaigns and regional classifieds 	<ul style="list-style-type: none"> ▪ Advertising revenues from national (i.e., German speaking part of Switzerland) campaigns and regional classifieds

Note: Passages in boldface highlight deviation from configuration to the left. Source: Based on Ringier (2006a) Stadler (2006) and Persönlich (2006i, 2006j) and Editor-in-Chief3 (2011).

First, the value proposition for the readers' market suggested a free daily evening newspaper in full color and tabloid format. The proposed newspaper targeted commuters primarily aged 14 to 29 on their way home from school, university, or work between 4:00 p.m. and 08:00 p.m. This age group proved more difficult for advertisers and publishers to target since their media consumption habits were more fickle and varied from those of traditional newspaper readers (Jordan & Chisholm, 2005; Manager3, 2011). The project team had identified that the number of commuters travelling between 4:00 p.m. and 9:00 p.m. matched the number of commuters targeted by 20 MINUTEN between 5:00 a.m. and 1:00 p.m. (Ringier, 2005). In terms of functional value, QUICKBLICK promised its readers an overview of the hard news of the day that mattered to the target group and soft news for mild entertainment on the commute as well as to provide information useful planning activities for upcoming leisure time. Besides traditional newspaper and magazine-type elements, the content would feature elements typically found on the Internet or radio. For ease of consumption, the suggested language was clear, simple and non-polarizing. Experientially, the newspaper suggested value by easing the transition from work to leisure time in a congenial and positive way. Both functional and experiential value were tailored to compete with

commuters' preferred alternatives (i.e., having conversations, making phone calls, planning the evening's activities, etc.) (Consultant1, 2011; Ringier, 2006a). The value proposition for advertising clients, in contrast, was to provide unique access to the above target group in the German-speaking part of Switzerland with a combined advertising offering by BLICK and QUICKBLICK.

Second, for its value creation, the suggested business model drew on the RINGIER newspaper division's existing resources and capability. Besides shared or endorsed branding, the concept proposed integrating a small editorial staff of about 20 full-time equivalents in BLICK's existing newsroom. It was suggested that the existing editorial teams of BLICK, SONNTAGSBLICK, and BLICK ONLINE would serve as in-house news wire source for QUICKBLICK providing the free daily with editorial content thus leveraging journalistic content and drawing on scale economies similar to METRO WORLD NEWS (Vogel, 2001). In addition, BLICK's publishing staff would manage advertising sales. Externally, the most important contractual transaction partners were local print plants owned by other Swiss publishers and the SWISS FEDERAL RAILWAYS as distribution partners.

Third, in the advertising market, the new newspaper value communication focused on an introductory discount on ad displays. In the readers' market, however, value communication built on print and radio advertising, as well as point-of-distribution measures in the form of handout people distributing QUICKBLICK along highly frequented commuter routes. Handout people not only served as a means of communication, but also to distribute the new news product. The QUICKBLICK business model also suggested distributing the 200,000 newspaper copies from distribution racks at train stations and at public transport stops.

Finally, the free evening newspaper business model built on advertising revenues only. The types of revenues were expected to include both campaigns that addressed the entire German-speaking part of Switzerland as well as regional classifieds.

The project team employed quantification and focus groups strategies to verify their assumptions that backed their proposed business model before the market launch of the free newspapers and thus reduce the upfront investment risk (McGrath, 2010). In addition to analyzing existing statistics, the project team, for example, quantified the number of daily news wire reports that could be covered by an evening daily with an editorial deadline of around midday (Consultant1, 2011) and what percentage of different news categories published by 20 MINUTES in the morning could have been printed in QUICKBLICK the previous afternoon (Ringier, 2005). A market research in-

stitute was commissioned to test readers' acceptance of the new newspaper pilots with focus group sessions (Consultant1, 2011; Editor-in-Chief1, 2011; Editor-in-Chief3, 2011). Probing readership acceptance was outsourced not only for methodological reasons, but also as a means of legitimizing the results. The project team did not want to run the risk of time-consuming discussions regarding an issue of the trustworthiness of their results (Editor-in-Chief1, 2011). The same rationale was applied several months later when a marketing agency was commissioned with the task of identifying suggestions for a suitable design and brand name (Editor-in-Chief1, 2011).

In the second half of January 2006, the project team experienced a first significant crisis when it received the feedback from the first focus group sessions (Editor-in-Chief1, 2011; Editor-in-Chief3, 2011). The head of the newspaper division had, up to that point, produced two newspaper pilots for QUICKBLICK in a makeshift newsroom with an improvised editorial team (Consultant1, 2011; Editor-in-Chief1, 2011). The third pilot, the first to be exposed to a potential target readership, was soundly rejected by the focus groups. The main reasons were that the name, layout, and tone of the content triggered a negative association with BLICK (Ringier, 2006a), which challenged the conception of QUICKBLICK and its relationship with BLICK in the underlying business model.

Although the feedback was devastating, it did contain clues as to what the target group expected; thus, the project team had rough guidelines regarding what direction to take when they started anew (Editor-in-Chief1, 2011; Ringier, 2006a). The process of translating vague reader preferences into a free newspaper product without role models required a great deal of trial-and-error learning (Sosna, et al., 2010) on the part of the project team before and the editorial team after the market launch of RINGIER's first Swiss free daily.

The subsequent pilot issues in February and March 2006 found significantly greater approval with the potential target readership (Ringier, 2006a). However, the rejection of the QUICKBLICK brand had implications not only for the value proposition and its physical materialization. Other aspects that had built on close collaboration with BLICK were scrutinized and remodeled as well (cf. Table 39). In particular, the setup of how to create the value the free newspaper constituted for readers and advertisers changed considerably from QUICKBLICK to HEUTE (Ringier, 2006a). While an integration of newsrooms had been previously suggested, HEUTE was ultimately established, in May 2006, with its own small independent newsroom, located in a building two blocks away from RINGIER's headquarters and the incumbent newspapers (Consultant1, 2011;

Editor-in-Chief1, 2011). HEUTE's own editorial and production staff shared offices, while the advertising sales function was outsourced to BLICK publishing (Editor-in-Chief1, 2011). In contrast, the changes to the value proposition were subtler and are not adequately captured by the overview in Table 39. However, the branding, layout, and tone of the content distinguished HEUTE more clearly from BLICK. In the final presentation of the HEUTE concept before the board of directors, which approved of the concept by the end of March 2006, the project team emphasized the distinctive yet complementary nature of the incumbent flagship newspaper and the new free daily (cf. Table 40).

Table 40: Complementary characteristics of BLICK and HEUTE in 2006

	BLICK	HEUTE
<i>Readership</i>	Rural and older	Urban and younger
<i>Content</i>	Researches its own stories, little news wire material Offering opinions	Little own research, mostly news wire material Offering information (no own opinion)
<i>Tone</i>	Loud and emotional at times	Reserved
<i>Layout</i>	Individual	Standardized
<i>Distribution</i>	Morning	Afternoon
<i>Transaction</i>	For sale	For free

Source: Based on Ringier (2006a).

The market launch date was set for May 15, 2006, six weeks after final approval of the concept, and was based on three considerations: First, an evaluation of potential competitor responses and the importance of launching a new product quickly since information had inadvertently leaked; second, the upcoming FIFA football world championship in Germany, which would stimulate demand for information; and third, the rhythm by which advertising budgets were allocated, which prohibited a market launch during the summer holiday season (Consultant1, 2011; Editor-in-Chief1, 2011; Editor-in-Chief3, 2011). To be able to accomplish the company's goals within the ambitious timeline, the head of newspapers stepped down in order to operate as HEUTE editor-in-chief (Stadler, 2006), while the external consultant was assigned responsibility for HEUTE's publishing matters (Editor-in-Chief1, 2011).

Market launch preparations in the following weeks included presenting the newspaper to representatives of the advertising industry and potential clients (Persönlich, 2006j), commissioning a marketing agency with a market launch campaign (Persönlich, 2006g), hiring new personnel and persuading internal experienced employees to work on the project, signing contracts for distribution and production, and

establishing offices (Editor-in-Chief1, 2011; Journalist1, 2011). A tight production budget and a consistent low-cost focus throughout the business model also meant that the project team had to negotiate separate deals with news wires as well as agencies providing photographic material and recruit relatively inexperienced journalists willing to work at low rates (Consultant1, 2011; Editor-in-Chief1, 2011).

Editorial and production work did not start until two weeks before market launch (Weissberg, 2006t). The editor-in-chief established the editorial process and elaborated the operational details of the editorial concept developed by the innovation project team (Weissberg, 2006h, 2006i). Establishing routines for the editorial process took considerable trial-and-error learning on the part of both the more senior and the young aspiring journalists, who made up largest part of the editorial team (Journalist1, 2011; Weissberg, 2006e, 2006l, 2006p). In addition, the editorial team was preoccupied with two important task concerning the unit's external relations: First, they had to address concerns about the feasibility of an evening newspaper production because the German-speaking part of Switzerland had not seen a successful evening newspaper since 1977 (Persönlich, 2006c). Second, they had to educate non-institutionalized news suppliers about the production requirements for an evening newspaper; in particular, up to what time of day news could be included in the day's newspaper (Editor-in-Chief1, 2011; Weissberg, 2006g) (cf. Table 41).

Table 41: A one-day timeline for HEUTE newspaper production

Time	Activity
until 8 a.m.	Update: What is new in newspapers? What news do news wires deliver? What news should the editorial team focus on?
08.45 a.m.	Meeting with the heads of the editorial team, publishing, and distribution.
09.00 a.m.	First editorial meeting: Discussion of every news page, current topics, titles, and text length.
09.30 a.m.	Editor-in-chief attends Blick editorial meeting to familiarize himself with the flagship newspaper's plans for the day.
10 to 12 a.m.	Editor-in-chief writes the captions for the double page with photographs and does research to complement information from news wires. Work on the front page.
11 a.m.	Second editorial meeting: Check of news situation and work in progress.
12 to 13 p.m.	Final effort to finish everything (approval of all pages, produced texts) in time to meet the editorial deadline.
13 p.m.	Editorial deadline: Send contents to print production.
13.30 p.m.	Editorial team starts preparing content for the following day.
14.30 p.m.	Delivery trucks start loading newspaper copies.
16 p.m.	Newspapers are distributed from distribution racks

Source: Based on Weissberg (2006d, 2006k).

HEUTE was launched according to plan on Monday, May 15, 2006, with 110,000 newspaper copies distributed in the Zurich area, 40,000 in Basel, and 50,000 in Berne. The project team, the new staff, and the president of the board were satisfied with the performance on market launch day despite various content and typing errors (Editor-in-Chief1, 2011; Editor-in-Chief3, 2011; Weissberg, 2006b, 2006j, 2006k).

20 MINUTEN, which had been aware of RINGIER's plans since at least March 2006, responded to its new competition with the introduction of a new MMS-newspaper (Persönlich, 2006h). Operating under the slogan "printed news, that's yesterday's news" (a word play on HEUTE's [engl. "today"] brand name), the free mobile service promised subscribers a news update every afternoon at 4:00 p.m. (Persönlich, 2006h).

The fifth teleological cycle ended at the end of May 2006, when the focus of the editor-in-chief turned from simply accomplishing the production of a free newspaper that was in distribution racks by 4:00 p.m. to improving the quality of the value proposition (Editor-in-Chief1, 2011; Weissberg, 2006n).

The last instance of a generative mechanism working in stage 2 is part of an enactment of support for the new venture that had developed in the fourth sensemaking cycle. The president of the board of directors visited HEUTE's newsroom in early July 2006 to show his support for and appreciation of the innovative project (Weissberg, 2006q).

5.2.3.3 Consequences and conclusion

By the end of stage 2, RINGIER had gone through a process of developing and implementing a new newspaper business model for a free daily. The number of ideas pursued in parallel converged and diverged (Van de Ven, et al., 2008) twice: from the first rather vague top-down impulse to "have a look at different free newspaper options" (Editor-in-Chief1, 2011) to the implemented HEUTE business model. This business model was the result of sensemaking at RINGIER's top management level, operational work by the innovation project team driven by a teleological mechanism, and the tensions between the new and existing businesses.

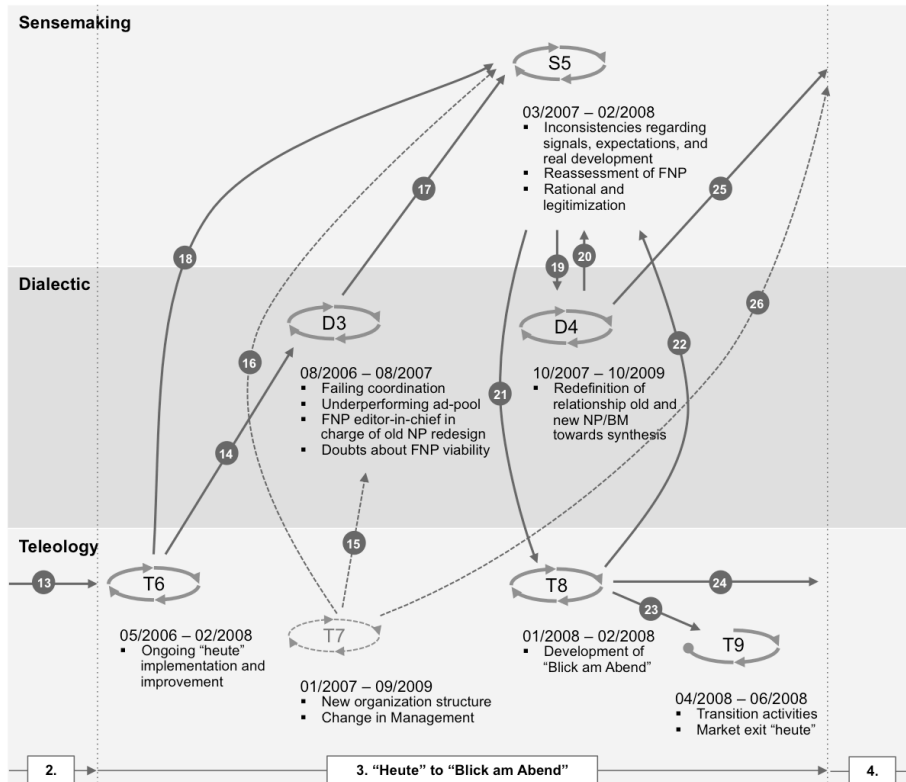
Overall, there were two sensemaking, one dialectical, and four teleological mechanisms at work throughout stage 2. The financial success of domestic and foreign free dailies as well as changing media consumption habits, on the one hand, and the continued downward trend of RINGIER's incumbent newspapers BLICK and SONNTAGSBlick in terms of net reach, on the other, catalyzed a reconsideration among RINGIER managers of their stance on the free daily business model in the third

sensemaking cycle (S3). This formally started the innovation project team's teleological search process, within which they developed assumption-based options, gathered information, and developed initial business model ideas (T2). The new information was subsequently incorporated into further sensemaking at the top management level, where the legitimization of engagement in the free newspaper business was updated and refined (S4). This sensemaking cycle interacted with both the subsequent operational-level project development (T4, T5) and a dialectic conflict (D2) between the old and the new business model. The conflict materialized as a result of both public attention and a BLICK journalist's bottom-up initiative to develop a free newspaper of his own (T3), which led to a more concentrated focus on support for the anti-thesis (i.e., the free daily's business model). Finally, the result of this interaction was the implementation of the HEUTE newspaper (T5) as an organizationally separated unit in May 2006. The free newspaper unit shared weak ties with the existing newspaper business in terms of very limited editorial coordination and a joint advertising sales function. The reason for this separation, however, could be traced back not only to the rejection of the free newspaper idea by the BLICK editor-in-chief; potential target readers had also rejected the value proposition of QUICKBLICK (Table 39).

5.2.4 Stage 3: HEUTE to BLICK AM ABEND

Stage 3 in Figure 29 is comprised of the events referring to the ongoing implementation and improvement of HEUTE beginning in June 2006 and to the transition from HEUTE to a new general interest free daily titled BLICK AM ABEND, launched as a replacement in June 2008.

Figure 29: Mechanisms operating throughout stage 3 (05/2006 – 06/2008)



Source: Own representation.

5.2.4.1 Causal conditions

At the beginning of the third stage of the case study, RINGIER had implemented HEUTE, a free daily evening newspaper produced by a mostly independent unit with its own resources, editorial processes, and production (cf. Table 39, p. 196). As the result of the generative mechanisms operating throughout stage 2 (in particular S4, D2, and T5), BLICK and HEUTE were only loosely connected. For editorial coordination, HEUTE's editor-in-chief participated in BLICK's editorial morning meetings on a daily basis in order not to spoil the flagship newspaper's next-day headlines (Editor-in-Chief1, 2011). Advertising sales, in contrast, were closely integrated, with BLICK publishing delegates selling HEUTE ad displays and a joint advertising pool (Editor-in-Chief1, 2011).

Many aspects of the business model implemented within just six weeks after final approval of concept were not specified to the level of operational detail and had to be discovered and learned on the project (Editor-in-Chief1, 2011). Thus, until the end of May 2006, the heads of the innovation project team, who assumed key operational roles at HEUTE, focused only on meeting the editorial deadline (Editor-in-Chief1, 2011). For the first several weeks, “success” was defined as having newspapers in distributions racks by 4:00 p.m. on a daily basis (Editor-in-Chief1, 2011).

5.2.4.2 Actions

In June 2006, about three weeks after market launch, HEUTE’s editorial and publishing team shifted their focus from merely meeting the editorial deadline and having a product out in the market by 4:00 p.m. to aspects of quality, optimization, and extension (Editor-in-Chief1, 2011; Editor-in-Chief3, 2011; Weissberg, 2006b, 2006j, 2006k). This started an ongoing *teleological cycle* (*T6*) of implementation, improvement, and extension that lasted from June 2006 until February 2008. It endured two administrative reviews, which concluded that HEUTE had fallen short of RINGIER’s expectations, and ended only after the final decision regarding its successor, BLICK AM ABEND, had been made.

The sixth teleological cycle started with the implementation team actively seeking information and feedback from readers and advertisers on the new free daily (Weissberg, 2006a, 2006c, 2006r). The project team knew that the materialization of the business model, given time to market, had not been perfect and had relied on assumptions that had not lent themselves to complete and/or thorough testing (Consultant1, 2011; Editor-in-Chief1, 2011; Weissberg, 2006f). Based on this feedback, HEUTE was re-launched twice within its first year on the market.

Table 42 lists the changes to HEUTE’s implemented business model over the first year of its existence. The main features of its business model remained, as had been anticipated by the project team’s concept. However, the free newspaper itself – as the materialization of the value proposition in the readers’ market – underwent a high number of detailed changes including new content, change in the weight attributed to different news sections, and more reader interaction (Persönlich, 2006b, 2007e). However, the principal functional and experiential value provided by the free evening daily remained unchanged. This also applied to the two-tier production process for the newspaper’s editorial content; the first half of the newspaper remained devoted to hard

news and current topics, which the editorial team produced and processed daily, and the other half contained (mostly) pre-produced soft news (Editor-in-Chief3, 2011).

Table 42: Changes to the business model as HEUTE was relaunched

Business model element	Relaunch 1 (08/2006)	Relaunch 2 (05/2007)
Value proposition	<p><i>What</i></p> <ul style="list-style-type: none"> ▪ Changes to the implementation of the value proposed to target readership <p><i>How</i></p> <ul style="list-style-type: none"> ▪ Two more news pages providing more space for national, business, and international news ▪ Party and event tips instead of simple listings ▪ New page on music every Tuesday ▪ Weekly instead of bi-weekly pages on career and travel topics ▪ More pictures, less text in the picture gallery ▪ More viewpoints from columnists ▪ New horoscope ▪ Tweaks in layouts and fonts 	<p><i>What</i></p> <ul style="list-style-type: none"> ▪ Changes to the implementation of the value proposed to target readership <p><i>How</i></p> <ul style="list-style-type: none"> ▪ Additional page featuring multi-media news about cellphones, Internet, and computers ▪ Double page for Knowledge and Nightlife section ▪ Layout sets news and magazine part more clearly apart ▪ More information on music ▪ Interactive features for readers on HEUTE website, including a section where readers can submit reviews of restaurants, clubs, or music, the best of which are printed in the newspaper ▪ Multi-media content (videos) on HEUTE website ▪ Internet music video portal in collaboration with Sony BMG
Value creation	<p><i>What</i></p> <ul style="list-style-type: none"> ▪ Extension of editorial resources <p><i>How</i></p> <ul style="list-style-type: none"> ▪ Hire a head of texts to improve on quality. 	<p><i>What</i></p> <ul style="list-style-type: none"> ▪ Extension of editorial resources <p><i>How</i></p> <ul style="list-style-type: none"> ▪ Hire two new journalists
Value transfer	<p><i>What</i></p> <ul style="list-style-type: none"> ▪ Optimization of newspaper distribution <p><i>How</i></p> <ul style="list-style-type: none"> ▪ Test of early morning readership (Do commuters take yesterday's HEUTE if 20 MINUTEN is out of stock?) ▪ Management of the number of newspaper copies distributed to individual racks ▪ Assessment of distribution rack's location 	-

Source: Based on Editor-in-Chief1 (2011), PERSÖNLICH (2006a, 2006b, 2006e, 2006f, 2007a, 2007b, 2007e, 2007g), Weissberg (2006a, 2006f, 2006m, 2006o, 2007a, 2007d, 2007e).

With regard to value creation, the editor-in-chief hired additional personnel that allowed for improving the quality of texts in content, format, and style (Editor-in-Chief1, 2011; Weissberg, 2006f). Finally, increasing the efficiency and effectiveness of value transfer was particularly a focus until the first re-launch. In particular, HEUTE distribution addressed two points: First, they tested to what extent readers would still read yesterday's HEUTE newspaper at train stations where 20 MINUTEN was out of stock in the early morning (Persönlich, 2006f). Second, they evaluated the optimal number of newspapers per distribution rack as well as the location of the racks

(Consultant1, 2011; Editor-in-Chief1, 2011; Weissberg, 2006n). However, the overall inside-out⁷⁹ distribution concepts that targeted commuters in city centers on their way home was not drastically changed⁸⁰ (Consultant1, 2011; Manager2, 2011).

Along with efforts toward implementation and improvement, the HEUTE editor-in-chief frequently and publicly reported on the project's progress in the free daily's blog, which was devoted to founding HEUTE (Weissberg, 2006t). For example, the editor-in-chief reviewed three of the project's central premises just three weeks after market launch (Weissberg, 2006f):

“ 1. There is indeed news for an evening newspaper. Unfamiliar is the “unfinished” status of reported events [...].

2. If there is a free newspaper offered in the evening, readers will take it. What readers have learned as morning ritual, works apparently in the evening as well.

3. The need for news in the evening is different. On group of readers has kept up-to-date by listening to the radio and reading on the Internet. They don't want too much news. The other group of readers hasn't had access to news during the day. They would rather have more news. We selected a middle way – about satisfying both groups.” (Weissberg, 2006f)

Table 43 summarizes the reported outcome tendencies for HEUTE in the readers' and advertising market between 2006 and 2007. Evaluation of implementation is part of the sixth teleological cycle and the results show that while readership perception was mostly positive, the perception of HEUTE's performance in the advertising market was mixed to negative – particularly in two internal administrative project reviews (Manager1, 2011; Manager3, 2011).

⁷⁹ Inside-out distribution, as practiced by HEUTE, refers to a distribution concept that concentrates distribution points (i.e., racks and handout people) in city centers. The intention is to target readers as they commute from their jobs in city centers to their homes in the suburbs. However, in the morning hours, commuter flows work the other way around. Thus, morning free dailies employ an outside-in distribution strategy instead. They position their distribution racks and handout people in suburbs and cities' greater metropolitan areas so that target readers may pick up their free daily on their way to work in city centers (Vogt, 2010).

⁸⁰ HEUTE's initial inside-out concept was somewhat relaxed in 2007 to include more distribution points outside of city centers because distribution did not achieve satisfactory levels of geographical coverage in city centers with their distribution points (Manager2, 2011; Manager3, 2011).

Table 43: Outcomes signaled for HEUTE in 2006 and 2007

Date	Readership market	Advertising market	Source
2006			
May	(+) overrun is low		Editor-in-chief (Weissberg, 2006b)
June	(+) readers read HEUTE		Editor-in-chief (Weissberg, 2006f)
July	(+) positive reader survey		Editor-in-chief (Weissberg, 2006s)
September		(+/-) mixed feedback	CEO of advertising agency (Weissberg, 2006c)
October		(+) Sales of ad displays	Editor-in-chief (Weissberg, 2006a)
2007			
January	(+) circulation nearly doubled in three month, readership increasing		Editor-in-chief (Weissberg, 2007d)
March	(+) 211,000 readers	(+/-) Ad display sales will rise once WEMF figures can be published	RINGIER CEO (Persönlich, 2007l) President of the board of directors (Persönlich, 2007j)
		<i>(+/-) mixed results</i>	<i>Administrative review</i> (Manager1, 2011)
May	(+) nearly 200,000 distributed copies, daily	(+/-) negative as planned	Editor-in-chief (Persönlich, 2007i)
June	(+) 230,000 distributed copies on good days	(+) bookings increased	Editor-in-chief (Weissberg, 2007c)
September	(+) 243,000 new distribution record		Editor-in-chief ad interim (Steil, 2007)
October	<i>(+/-) slightly fewer readers than projected</i>	<i>(-) lower than expected</i>	<i>Administrative review</i> (Manager3, 2011)
November	(+) 235,000 distributed copies on average	(+/-) losses are within budget	RINGIER CEO (Persönlich, 2007k)

Note: Lines in italics denote internal performance assessments. (+) denotes positive, (-) denotes negative, and (+/-) denotes mixed or neutral assessments. Source: Based on sources indicated within the table.

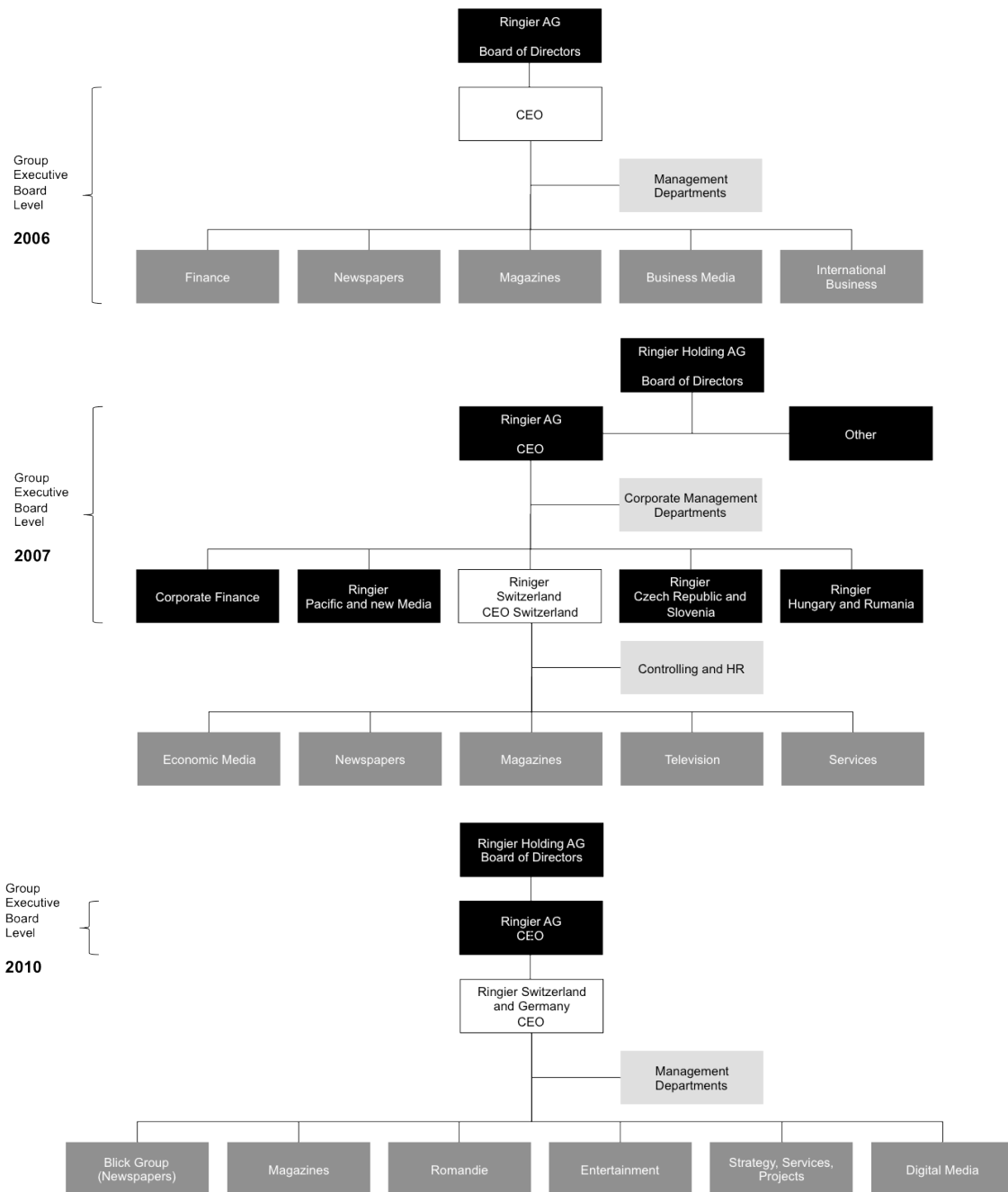
The discrepancies between expectations and perceived performance, among other factors, eventually triggered a new cycle of sensemaking (S5) (cf. arrow 18 between T6 and S5 in Figure 29), questioning whether HEUTE had been the right business model to implement. This led, in turn, to a new dialectic cycle (D3), reinvigorating the debate between the free and the paid-for daily newspaper – thesis and anti-thesis (cf. arrow 14 between T6 and D3 in Figure 29).

Other factors of significance included, particularly, changes in RINGIER management (cf. T7 and D3). However, of minor relevance were the market entry of two

morning free dailies, (PUNKT).CH and NEWS, in late 2007 (Custer, 2008) and normal staff turnover at HEUTE (e.g., Persönlich, 2008h).

A change in RINGIER's organizational structure that came into effect on January 1, 2007, started the *seventh teleological cycle (T7)*, which had specific consequences for HEUTE. The group-level management had decided to adjust RINGIER's structure so that the weight of international operations would be more adequately represented in steering committees (Manager1, 2011; Manager7, 2012). Prior to 2007, RINGIER had operated its international business as a single geographically organized division alongside a predominantly functional structure covering its Swiss operations (Manager1, 2011). With the new structure in effect, RINGIER was organized into country divisions. This required a new management layer dedicated to Swiss operations because the RINGIER group executive board was now focusing on group management only (cf. Figure 30). The external consultant, who was part of the innovation project team and in charge of HEUTE's publishing matters in the business model implementation, was appointed the new head of RINGIER's newspaper division (Ringier, 2007c). Hence, for the second time since the previous head of the newspaper had become editor-in-chief of HEUTE, the free daily benefited from having a newspaper division head who was a strong advocate for the free newspaper project. That benefit, however, was short-lived (Consultant1, 2011; Editor-in-Chief1, 2011; Manager1, 2011).

A second, less immediate effect of the seventh teleological cycle was that the change in organizational structure and management initiated a new cycle of sensemaking (cf. arrow 16 between T7 and S5 in Figure 29) within which past and present activities were reinterpreted to define a new strategy at the corporate (i.e., RINGIER AG) and the divisional level (i.e., RINGIER SWITZERLAND) (cf. organization chart for 2007 in Figure 30, p. 210). In spring 2007, there was strong disagreement within the RINGIER management regarding new strategic goals and RINGIER SWITZERLAND's prospective path (Manager1, 2011). At the end of June 2007, both RINGIER's new CEO of Swiss operations and the new head of the newspaper division resigned after just six months in office (Manager8, 2012). Ad interim, the head of the magazine division filled the open positions. However, in contrast to his predecessor, the new head of newspapers was less than enthusiastic about HEUTE's prospects (Editor-in-Chief1, 2011; Manager1, 2011; Manager8, 2012) (cf. arrow 15 between T7 and D3 in Figure 29).

Figure 30: RINGIER organization chart 2006, 2007, and 2010.

Note: Reduced RINGIER organization charts; “Romandie” refers to publications in the French-speaking part of Switzerland. Source: Own representation based on Ringier (2006b, 2007c, 2010b).

Finally, in August 2007, the new interim CEO of RINGIER SWITZERLAND promoted the SONNTAGSBlick editor-in-chief to the editorial head of newspapers (Persönlich, 2007c). This new function, which reported to the head of the newspaper division (i.e., the CEO of of RINGIER SWITZERLAND ad interim), was in charge of the editorial and strategic development of BLICK, SONNTAGSBlick, BLICK ONLINE, and HEUTE (Persönlich, 2007c). A manager indicated that the creation of the new position

resulted primarily from the editor-in-chief's own wish to assume more responsibility (Manager8, 2012). In effect, the appointment contributed to renewed tensions between the incumbent and new business model in the third dialectical cycle (cf. arrow 15 between T7 and D3 in Figure 29).

The *third dialectical cycle (D3)* began when it became apparent that the relationship between the newspapers representing the old and new business model – thesis and anti-thesis – was not working out as anticipated. The new dialectic cycle displayed new conflict and tension, which led to a reassessment of the relationship between the two business models. While four materializations of the cycle worked against the new business model, one eased tensions.

First, on an operational level, coordination between the editorial offices of the old and new business model ceased about three months after HEUTE's market launch (Editor-in-Chief1, 2011). By August 2006, HEUTE's editor-in-chief had realized that coordination interest was a one-sided affair, with his efforts finding no counterpart at BLICK and, also that BLICK's and HEUTE's different production timelines often resulted in different headlines (Editor-in-Chief1, 2011). Hence, cannibalization of content was limited despite weakening integration.

A second materialization that displayed latent tensions between the incumbent flagship newspaper and the new free daily arose from performance difficulties of the joint advertising pool (Haller, 2009a; Manager3, 2011). From an advertising client's perspective, the combination of BLICK and HEUTE did not make as convincing a case as anticipated (Consultant1, 2011; Manager1, 2011; Manager3, 2011). One particular cause of this problem, highlighted by a number of interviewees, was the way the Swiss industry body for media measurement (WEMF) audits circulation and readership figures. Since 2006, WEMF has been assessing and publishing circulation and readership figures in spring and autumn on a bi-annual basis and publishes figures with a one-and-a-half year time lag. Thus, HEUTE would not have been able to sell its ad display pages on the basis of officially audited figures until spring 2008⁸¹. However, these official figures and derived performance measures (e.g., reader per issue, cost per thousand reader contacts, etc.) are crucial for advertising agencies to justify their ad display bookings (Consultant1, 2011; Manager4, 2011). Not only was the lack of figures to substantiate the effectiveness of RINGIER's new advertising pool a factor increasing

⁸¹ Since the spring assessment had already begun when HEUTE launched, its circulation and readership figures were first audited from autumn 2006 to autumn 2007 and subsequently published almost two years later in spring 2008.

tensions. Employee incentives to promote the new title were limited, and the new title, which required sales people skilled in acquiring regional ad campaigns, was not able to draw advantage from BLICK publishing's sales force, whose area of expertise was national ad campaigns. (Consultant1, 2011; Editor-in-Chief1, 2011). Overall, this second instance weakened the position of the free newspaper within RINGIER because the business model's financial viability had been a main argument in justifying the project in prior sensemaking (S3 and S4). Moreover, the inconstancy in expected synergies and benefits compared with the actual performance of HEUTE triggered new sensemaking (cf. arrow 17 between D3 and S5 in Figure 29).

The third materialization indicating disfavor toward HEUTE refers to a RINGIER committee that unexpectedly challenged the free daily on the basis of "journalistic quality". In summer 2007, a committee of senior RINGIER managers and journalists challenged HEUTE on the basis of journalistic arguments that had not dominated dialectic tensions since early 2005 and classified the HEUTE editorial team's product as an inferior type of journalism (Journalist2, 2012).

Finally, as mentioned earlier, HEUTE lost part of its management support when a new manager assumed office as interim CEO for RINGIER SWITZERLAND and head of the newspaper division and when he appointed a new editorial head of newspapers as a consequence of the seventh teleological cycle (Editor-in-Chief1, 2011; Manager1, 2011; Manager6, 2011; Manager8, 2012). Both the new interim CEO and editorial head of newspapers doubted HEUTE's viability and openly communicated their views to the president of the board of directors (Editor-in-Chief1, 2011; Manager8, 2012) (cf. arrow 17 between D3 and S5 in Figure 29).

However, one of the strongest sources of opposition disappeared in August 2007. RINGIER management launched the BLICK 2010 initiative in early 2007 to address the continuous decline of its flagship newspaper in both the reader and advertising market (Journalist2, 2012). The revival of BLICK had high priority under the first CEO of RINGIER SWITZERLAND and his interim successor (Manager8, 2012; Persönlich, 2007d). Based on the project outcomes⁸², HEUTE's editor-in-chief was appointed manager of the BLICK 2010 project in April 2007 before he took over as the new BLICK

⁸² BLICK was re-launched based on project BLICK 2010 in March 2008. Without neglecting core readership, the new content in the format of a single tabloid newspaper appealed more to an urban, young, and female audience (Manager8, 2012). The newspaper was published with two front pages – one for sports at the back, and one with news headlines at the front (Persönlich, 20081). In addition, early morning home delivery between 5 and 6.30 a.m. was offered in Switzerland's major city centers as well as distribution from 230 additional pay-per-issue distribution boxes (Persönlich, 20081).

editor-in-chief in November 2007 (Persönlich, 2007c; Weissberg, 2007b). This eased tension between the incumbent and new business model. To fill the gap, RINGIER promoted the previous deputy editor to HEUTE's interim editor-in-chief (Steil, 2007).

A *fifth sensemaking cycle (S5)* began as doubts about HEUTE's success and viability arose. The sensemaking at the top-management level dealt with inconsistencies arising from, on the one hand, positive signals and expectations raised by project plans as well as positive signals from the project team (cf. Table 43) and, on the other hand, mixed to negative signals from sales personnel and the advertising market, as reported in two administrative reviews. In addition, the third dialectical cycle triggered a reassessment of the relationship between the incumbent and existing business model because the balance of the two was being questioned.

In early 2007, changes to RINGIER's structure and management catalyzed a reassessment of the organization's activities and strategic context⁸³ (cf. arrow 16 between T7 and S5 in Figure 29). RINGIER enacted order in the flow of activities by defining five strategic pillars (i.e., "innovation, building and expanding digital media channels, using synergies, employee training and advancement, and efficient financial management" (Ringier, 2007b, p. 5)). Furthermore, as an intermediate outcome of sensemaking, RINGIER management developed the belief

"that the future of our publications lies in intelligently combining, under a strong brand and with strong content, multiple distribution channels such as print, television, radio, internet, mobile end-user devices and events" (Ringier, 2007b, p. 5)

based on their framing (Weick, et al., 2005) of past and present developments.

However, at that time, the relationship between BLICK and HEUTE neither emerged strong synergies, nor was RINGIER's Swiss newspaper business unified under a single strong brand (Manager5, 2011). Organizational actors approached the innovation project team as they tried to make sense of discrepant signals and HEUTE in the new strategic context. In spring 2007, for example, the RINGIER CEO approached the current head of the newspaper division, who had co-developed HEUTE as a consultant, to discuss the free daily's prospects. As a strong supporter of the project, he was able to convey that the positive development in the readers' market would eventually outweigh slow advertising sales (Consultant1, 2011).

⁸³ The president of the board of directors noted in the 2007 annual report that RINGIER most "often created strategies after the fact" (Ringier, 2008b, p. 5).

In the second half of 2007, however, doubts about HEUTE's viability gained momentum when RINGIER SWITZERLAND's management changed and a new editorial head of newspapers assumed office (Editor-in-Chief1, 2011; Manager6, 2011; Manager8, 2012) (cf. arrow 16 between T7 and S5 and arrow 17 between D3 and S5 in Figure 29). The new interim CEO of RINGIER SWITZERLAND defined HEUTE as one of the issues to address during his twelve-month tenure:

“HEUTE had a negative impact on BLICK publishing's balance sheet. [...] There were different problems: HEUTE was a peculiar brand that had no connection to the rest of RINGIER's brand family. The grey and green color scheme was very dull. And the time HEUTE was distributed, in the evening, was much more challenging than morning distribution” (Manager8, 2012).

In addition, the newly appointed editorial head of newspapers, who was in charge of the editorial and strategic development of RINGIER's Swiss newspaper business (Persönlich, 2007c), did not see a positive future for HEUTE. Given the strategic context's emphasis on synergies and single-branded multi-channel media and the free daily's performance, the contradiction at that time was:

“On the one hand, the RINGIER organization tried to convince itself that HEUTE had been the right choice. On the other hand, the feeling dominated that the BLICK brand would not fit a young, urban and feminine readership and that BLICK should never be a brand for a free product. In the worst case that product would cannibalize BLICK and serve as a precursor to turning BLICK into a free newspaper” (Manager6, 2011).

Not all the sensemaking was, however, unfavorable to HEUTE in the second half of 2007. The former HEUTE editor-in-chief was especially active in explaining the justifiability of past actions and why HEUTE had been and still was a sensible option for securing the future of free newspaper development at RINGIER (Editor-in-Chief1, 2011). He thus lobbied several times for HEUTE, addressing the editorial head of newspapers and other RINGIER managers (Editor-in-Chief1, 2011).

The change in strategic context and HEUTE management contributed to sensemaking in the fifth sensemaking cycle in a non-institutional setting. An event that channeled dispersed sensemaking efforts at the executive-board level was the presentation of the results of HEUTE's second administrative review in late October 2007 (cf. arrow 16 between T7 and S5 in Figure 29) (Manager3, 2011; Manager8, 2012).

The impulse for the review had come from a new publishing manager at the BLICK group who wanted to assess reasons for the discrepancy between HEUTE's projected and actual performance (Manager8, 2012). The administrative review concluded that

readership figures were developing well (Manager8, 2012), with some potential limits to further growth in Zurich, Berne, and Basel (cf. Persönlich, 2007f). In the advertising market, however, revenues did not meet business plan projections (Consultant1, 2011; Manager8, 2012). A few large advertisers made up most of HEUTE's revenues, classified sales were marginal, and even though advertisers signaled interest in an evening newspaper, they were reluctant to book before officially audited WEMF figures were available (Consultant1, 2011; Manager8, 2012; Ringier, 2007a). Based on his assessment, the publishing manager suggested three options to address HEUTE's challenges (Manager8, 2012; Ringier, 2007a): Option 1 suggested optimizing the present situation, which was unlikely to allow realizing synergies between BLICK and HEUTE. Option 2 proposed expanding the market geographically. The intention was to achieve a more respectable market penetration by launching regional HEUTE editions for Lucerne, Zug, and St. Gallen, which would, however, come at a high cost and increase risk in case of market failure. Finally, the third option suggested closing HEUTE down. Yet, this option was running the risk of affronting readers and losing credibility with advertisers because readership development did not warrant a market exit.

RINGIER SWITZERLAND executive board members engaged in collective sensemaking to determine what the results of the administrative review as well as the proposed options meant (Manager8, 2012). Up to that point, HEUTE had been legitimized based on the "consistent story" (Weick, et al., 2005) that its business model would enable RINGIER to achieve three related goals: First, to enter the attractive free newspaper market with a lean, low-cost business model at limited cost and limited risk; secondly, to target a readership demographic complementary to BLICK, which would constitute an exceptionally attractive advertising pool and thus support the flagship newspaper; and finally, to strengthen RINGIER's market position in the Swiss newspaper business (Consultant1, 2011; Manager8, 2012; Ringier, 2006a). However, the results of the review suggested greater cost, higher risk, and limited acceptance of the advertising pool⁸⁴ (Manager8, 2012; Ringier, 2007a).

While interviewees did not remember the particularities of discussions of HEUTE's prospects that took place at executive board meetings between October 2007 and January 2008, they clearly remembered that the interim CEO of RINGIER SWITZERLAND put the HEUTE market exit up for discussion in January 2008 as a consequence of this

⁸⁴ HEUTE had an average of 2.6 ad display pages per issue in January and February 2008 (-4.3 percent compared to the same period in 2007) whereas 20 MINUTEN featured 16.7 pages (+8.1 percent compared to the same period in 2007)(Custer, 2008).

process (Manager1, 2011; Manager8, 2012). The sensemaking of discrepant signals resulted in the group executive board's recommendation to withdraw HEUTE from the market (Manager6, 2011; Manager8, 2012). However, the fifth sensemaking cycle did not result in a complete renunciation of the idea of free dailies; rather it triggered the development of an alternative free daily concept, BLICK AM ABEND (engl. "BLICK in the evening") (cf. arrow 21 between S5 and T8 in Figure 29) in interaction with the fourth dialectic cycle (cf. arrows 19 and 20 between S5 and D4 in Figure 29).

The executive board's decision to withdraw HEUTE from the market freed up discussions on the relationship between the paid-for and free newspaper business model at RINGIER. The *fourth dialectical cycle (D4)*, which started in late 2007, worked to redefine the relationship of the two business models and steered them toward a partial synthesis later in 2008 and 2009 (i.e., the integration of all BLICK-branded media channels in a single newsroom).

The outcome of the interaction between proponents of the traditional and new newspaper business model was the proposal of a new balance: i.e., a free newspaper with a "for free" business model redesigned "closer to BLICK" that could then synergistically coexist with the flagship newspaper (Manager3, 2011; Manager5, 2011). This subsequently spurred a new teleological cycle (Manager8, 2012) (cf. arrow 21 between S5 and T8 in Figure 29). A late consequence was the redefinition of the free-newspaper-BLICK relationship that eventually – in interaction with the sixth sensemaking cycle – allowed developing a new integrated business model that combined both paid-for and free newspapers (Manager5, 2011; Manager6, 2011).

Particularly important to this development was a rationale introduced by the editorial head of newspapers that legitimized RINGIER's continued involvement in free evening newspapers (Manager1, 2011; Manager3, 2011; Manager6, 2011). Based on a sketch map of Switzerland, the editorial head of newspapers argued that RINGIER's Swiss newspaper business was suffering from four deficits (Manager6, 2011): First, RINGIER's newspapers were not present in the urban centers in the German-speaking part of Switzerland. However, rivals NZZ GROUP and TAMEDIA AG claimed a high readership penetration in Zurich, Berne, Basel, St. Gallen, Lucerne and Zug. Second, RINGIER's newspapers suffered from a shortage of young readers who were being addressed best by TAMEDIA AG's 20 MINUTEN at that time. Third, RINGIER's newspapers reached only low levels of female readership. Finally, RINGIER's newspapers did not reach critical mass for the most lucrative national advertising campaigns.

Although this picture was exaggerated, it helped to illustrate how a complementary BLICK-branded free daily would easily allow addressing these deficits (Manager1, 2011; Manager6, 2011). Eventually, key organizational actors were won over and provided support for the development of a new free daily (Manager1, 2011; Manager3, 2011; Manager6, 2011). Moreover, it provided the impetus for the sixth sensemaking cycle, which followed in stage 4 (cf. arrow 25 between D4 and S6 in Figure 29).

The activity involved in developing the new free daily with closer ties to BLICK is covered by the *eighth teleological cycle (T8)*. The executive board of RINGIER SWITZERLAND started the new teleological cycle in January 2008 (Manager3, 2011; Manager8, 2012). As they discussed HEUTE's market exit, executive board members embraced and developed the idea of replacing HEUTE with a free daily that could realize synergies with RINGIER's paid-for flagship newspaper and would complement the BLICK-branded titles (i.e., BLICK, SONNTAGSBLICK, and BLICK ONLINE) more closely (Manager1, 2011; Manager8, 2012). While branding and the newspaper's value proposition were subject to reconsideration, the same was not true for the issue of distribution time as the president of the board of directors had expressed his intention to maintain evening distribution (Manager8, 2012).

The editorial head of newspapers took on responsibility for developing a first conceptual draft for a new free evening newspaper (Manager6, 2011; Manager8, 2012). In contrast to the development of HEUTE, the editorial head of newspapers drafted the first concept, with the exception of the design, himself. However, just as the first project team, he actively sought out new ideas, observed foreign markets, and looked for best practices that would lend themselves to an adaptation to the local newspaper market (Manager1, 2011; Manager6, 2011). However, before the approval of concept, the editorial head of newspapers neither conducted self-administered market tests nor commissioned market research institutions to run formal experiments (Manager1, 2011; Manager6, 2011). Instead, the concept was based on lessons learned from HEUTE, assumptions about the kind of free daily that should work to complement BLICK, and observation.

The concept developed in early 2008 focused on the new free daily's value proposition. Along general lines, the editorial head of newspapers reinterpreted how a free evening newspaper could best support target readers in their transition from work to leisure time in a useful and congenial way (Editor-in-Chief2, 2011; Manager6, 2011). While in London at the end of January 2008, he drafted large parts of the new newspaper concept (Schwarzenbach, 2008).

When HEUTE pioneered the free evening newspaper concept in 2006, the project team had no points of reference to utilize (Consultant1, 2011; Editor-in-Chief1, 2011). In 2008, however, London witnessed the competition of two free evening dailies, LONDON LITE and THE LONDON PAPER (Haller, 2009a). RINGIER's editorial head of newspapers visited the newsroom of NEWS INTERNATIONAL's THE LONDON PAPER (Manager1, 2011) and observed readers' behavior on the underground, the bus, and in parks (Manager6, 2011). In the draft concept, he included content elements taken from local free dailies (Manager6, 2011). One particular insight culled from his observations was that UK free dailies took a more pragmatic stance on sample pages as well as defining stories and topics in order to deliver good news in a positive and humorous way (Manager6, 2011).

In mid-February 2008, the group executive board approved the executive board's proposal to withdraw HEUTE from the market and launch BLICK AM ABEND instead (Manager1, 2011). This decision was part of the eighth teleological cycle and marked the progression from the initial search for a new concept toward implementation. The editorial head of newspapers served as an innovation champion, promoting the project internally (Bucherer, et al., 2012; Burgelman, 1983c) and arguing on the basis of a tangible pilot, just as the head of newspapers had between late 2005 and early 2006 (Editor-in-Chief1, 2011; Manager6, 2011).

The approval of concept by resource-controlling committees had two effects: Within the eighth teleological cycle, a project team with a newly designated editor-in-chief (Persönlich, 2008n) was established in March 2008 to substantiate the conceptual draft and to define routines for the new free daily (Editor-in-Chief2, 2011; Manager6, 2011; Manager8, 2012). In addition, a new, ninth teleological cycle was initiated and covered the transition from HEUTE to BLICK AM ABEND as well as HEUTE's market exit (Editor-in-Chief2, 2011; Editor-in-Chief3, 2011; Journalist1, 2011) (cf. arrow 23 between T8 and T9 in Figure 29).

Overall, BLICK AM ABEND as launched on July 2, 2008, did not represent a new business model but rather a modification of the value proposition of Ringier's free evening newspaper (cf. Table 44). In particular, the value proposition's materialization put more emphasis on four distinct elements: boulevard-related content, optimistic rather than non-polarizing and neutral tone, service elements, and the BLICK media platform affiliation granting access to an attractive total audience/readership (Editor-in-Chief2, 2011; Manager1, 2011; Manager6, 2011). In stage 4 of this case study,

however, its business model was innovated when the free evening daily was integrated with RINGIER's other newspapers in a single newsroom.

Table 44: Business models of HEUTE (01/2008) and BLICK AM ABEND (06/2008)

Business model element	HEUTE	BLICK AM ABEND
<i>Value proposition</i>	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> Color evening newspaper in tabloid format structured in four sections (news, sports, life, community) <p><i>Customer</i></p> <ul style="list-style-type: none"> Young and urban people (mainly commuters) on their way home or their way to evening leisure activities; aged 15 to 32, household income CHF 8,000 plus. <p><i>Customer Value</i></p> <ul style="list-style-type: none"> Support readers in the transition from work to leisure time in a useful and congenial way Effortless to consume, positive tone and focus on pictures Clear and simple, non-polarizing language Unique content elements from radio/internet journalism Update on hard news that matter to the life of the core target group and soft news with a focus on nightlife and leisure activities Access to a young target group with high reach in German-speaking part of Switzerland with BLICK/ HEUTE advertising pool (KOMBI-NATION) 	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> Color evening newspaper in tabloid format structured in six sections (news, people, sports, life, night, community) <p><i>Customer</i></p> <ul style="list-style-type: none"> Young and urban people (mainly commuters) on their way home or their way to evening leisure activities; aged 15 to 32, household income CHF 8,000 plus. <p><i>Customer Value</i></p> <ul style="list-style-type: none"> Support readers in the transition from work to leisure time in a useful and congenial way Substantial, clearly structured service section that supports commuters planning their leisure activities and stimulates pleasant anticipation Positive, relaxed, and optimistic tone (texts and pictures) Clearly structured, well comprehensible information Delivers conversation topics Actively cultivated community Access to a young target group with high reach in German-speaking part of Switzerland with BLICK/ HEUTE advertising pool (DOPPELPAK)
<i>Value creation</i>	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> Independent branding Small editorial team (37 FTE, incl. online) Separate newsroom in different building integrating production and editorial staff BLICK publishing sells HEUTE ad displays and combined advertising pool <p><i>Value network / Coordination</i></p> <ul style="list-style-type: none"> Decentralized printing Distribution contract with SBB Contracts with news wires, PR agency 	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> Part of BLICK brand family and media platform Small editorial team Separate newsroom in different building integrating production and editorial staff BLICK publishing sells BLICK AM ABEND ad displays and combined advertising pool <p><i>Value network / Coordination</i></p> <ul style="list-style-type: none"> Decentralized printing Distribution contract with SBB Contracts with news wires, PR agency

(Table continued on next page)

<i>Value communication and transfer</i>	<p>Communication</p> <ul style="list-style-type: none"> ▪ Websites with community features/reader interaction ▪ Advertisements on local public transport in Zurich, Berne, and Basel ▪ Limited sponsoring/media partnerships <p>Transfer</p> <ul style="list-style-type: none"> ▪ Inside-out concept ▪ 220,000 copies on distribution racks at train stations, public transport stops, companies, gas stations, shopping centers, schools, and hospitals ▪ Handout people 	<p>Communication</p> <ul style="list-style-type: none"> ▪ Online banners ▪ Outdoor ad displays ▪ Advertisements in industry journals ▪ Handout people ▪ Advertisements on local public transport in Zurich, Berne, and Basel <p>Transfer</p> <ul style="list-style-type: none"> ▪ Inside-out concept ▪ 220,000 copies on distribution racks at train stations, public transport stops, gas stations, restaurants, and bars. ▪ Handout people
<i>Value capture</i>	<ul style="list-style-type: none"> ▪ Advertising revenues from national (i.e., German speaking part of Switzerland) campaigns and regional classifieds 	<ul style="list-style-type: none"> ▪ Advertising revenues from national (i.e., German speaking part of Switzerland) campaigns and regional classifieds

Note: Passages in boldface highlight deviation from configuration to the left. Source: Based on Editor-in-Chief2 (2011) and Ringier (2007a, 2008a, 2009a).

Besides the management of change efforts described below, market preparations with regard to the advertising market also resembled those of HEUTE (Ringier, 2008a). However, distribution and editorial routines did not have to be learned and developed from scratch because most of the HEUTE editorial and publishing staff continued working for the new free daily (Editor-in-Chief2, 2011).

For the market launch in June 2008, the project team stressed in its external communication that BLICK AM ABEND was a new and different project that would, however, continue what readers of HEUTE cherished (Persönlich, 2008f, 2008i). Internally, RINGIER management made clear that while they did appreciate the new project as deserving of a certain grace period (cf. Van de Ven, et al., 2008), they expected the project team to deliver better figures sooner than BLICK AM ABEND's predecessor (Manager3, 2011).

The final instance of a generative mechanism operating in the third stage of this case study is the *ninth teleological cycle (T9)*, which refers to all activities involved in transferring HEUTE to BLICK AM ABEND between April and June 2008.

In March 2008, HEUTE staff was informed that RINGIER would cease publishing its first free daily and replace it with BLICK AM ABEND (Manager6, 2011). The announcement by the editorial head of newspapers and the new editor-in-chief was met with mixed reactions and a few staff members decided to leave (Journalist1, 2011; Manager6, 2011; Persönlich, 2008i). The situation was delicate since RINGIER required HEUTE staff to stay on board to stay within the project timeline and to retain the acquired tacit knowledge (Manager6, 2011).

Employing three main measures, the project team eased the transition and created a sense of involvement among staff: First, it replaced personnel who had left RINGIER or switched to another internal position (e.g., Persönlich, 2008a, 2008e). Second, the new editor-in-chief conducted a series of workshops in which he included HEUTE staff in the operational specification of the draft concept for BLICK AM ABEND (Editor-in-Chief2, 2011). Third, the final issues of HEUTE, already produced under the lead of the designated BLICK AM ABEND editor-in-chief (Persönlich, 2008d), featured a farewell section, allowing HEUTE staff to say goodbye to their valued readership (Persönlich, 2008j). HEUTE's last issue was published on May 30, 2008 (Persönlich, 2008d).

5.2.4.3 Consequences and conclusion

By the end of stage 3, RINGIER had withdrawn its first free daily evening newspaper, HEUTE, from the market because the project was not meeting expectations and because doubts about the free newspaper's viability posed serious questions about the relationship between the incumbent and new business model. In particular, changes in management in 2007 predominantly weakened support for HEUTE. For his 12-months tenure, a new interim CEO of RINGIER SWITZERLAND defined both a re-launch of BLICK and an assessment of HEUTE's problems as pressing issues. A new editorial head of newspapers succeeded in building an alliance of support for a redesigned free daily, BLICK AM ABEND, positioned closer to BLICK. He legitimized the new free newspaper with a new rationale (incl. total readership penetration, readership demographics, and geographic market coverage). BLICK AM ABEND represented a reinterpretation and modification of HEUTE's value proposition with reference to exemplars from London while other aspects of the business model were but marginally optimized. RINGIER management harbored high expectations for the new free daily. Given that Switzerland had witnessed relatively good economic development during the preceding two years, the management anticipated a more rapid achievement of positive results (Ringier, 2006b, 2007b, 2008b).

In order to position BLICK-branded newspaper titles and the online portal as a consistent media and advertising platform, RINGIER was also working on re-launches for its other titles. For example, in March 2008, BLICK was re-launched as a single book tabloid newspaper with two front pages and a content mix that was designed to appeal more to an urban, young, and female audience (Manager8, 2012). In addition, longer texts, background information, and exclusive headlines were intended to differentiate BLICK from free dailies (Persönlich, 2008l; Schnider, 2008). Furthermore, early morn-

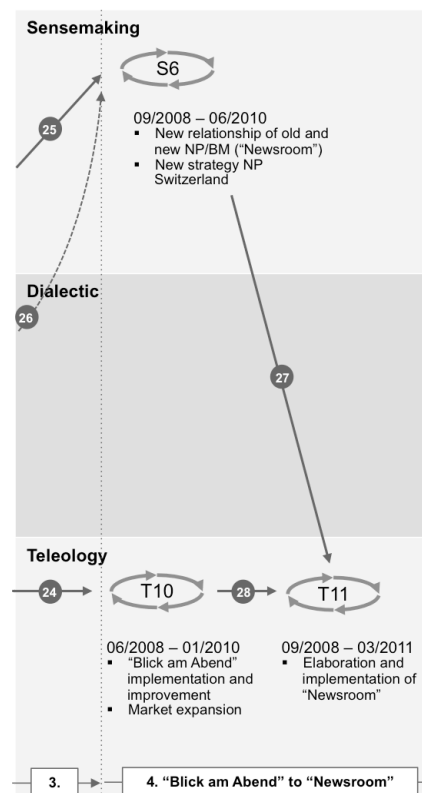
ing home delivery between 5 and 6.30 a.m. was offered in Switzerland's major city centers as well as distribution from 230 additional pay-per-issue distribution boxes (Persönlich, 20081). The Sunday newspaper SONNTAGSBLICK and BLICK ONLINE had already been re-launched in October 2007 (Ringier, 2008a).

In conclusion, one sensemaking, two dialectic, and four teleological generative mechanisms operated throughout stage 3. The results of the sixth teleological mechanism (T6) and HEUTE's ongoing implementation and improvement were below the expectations of RINGIER management. In addition, the signaling of project outcomes, which focused more on the positive readership figures and less on the lagging ad display sales, created dissonance. Together with the BLICK editor-in-chief's unwillingness to maintain minimal coordination and the stagnant performance of the joint advertising pool, the dissonance triggered the third dialectical cycle (D3). The sixth teleological cycle contributed directly and via the third dialectical cycle to a reassessment of HEUTE in the fifth sensemaking cycle (S5). The new strategic context as well as the new management of RINGIER SWITZERLAND installed by the seventh teleological cycle (T7) were both unfavorable to HEUTE. Sensemaking (S5) interacted with a new dialectical cycle (D4) enabled by the prospect of HEUTE's market exit. A new rationale was introduced to catalyze a more complementary relationship of the incumbent and new business model in the dialectic interaction between proponents of the thesis and anti-thesis. Project work to develop a new free daily was initiated by a top-down motivated eighth teleological process (T8). Finally, as the new concept was substantiated and prepared for market launch, the designated editor-in-chief of new BLICK AM ABEND managed the transition from HEUTE to the new free daily as well as HEUTE's market exit in the ninth teleological cycle (T9).

5.2.5 Stage 4: BLICK AM ABEND to NEWSROOM

Finally, *stage 4* in Figure 31 covers events that relate to the implementation and improvement effort after June 2008 to the introduction and implementation of a single multimedia newsroom for all BLICK-branded newspapers (incl. the flagship incumbent newspaper and free daily) between 2010 and 2011, which had profound implications for the business model of the free daily.

Figure 31: Mechanisms operating throughout stage 4 (06/2008 – 03/2011)



Source: Own representation.

5.2.5.1 Causal conditions

At the beginning of the fourth stage of the case study, RINGIER had just launched BLICK AM ABEND, a free daily evening newspaper produced by an independent editorial team in a separate newsroom but with joint advertising sales with the other BLICK-branded newspaper products. Along general lines, BLICK AM ABEND's business model resembled that of its predecessor, HEUTE (cf. Table 44, p. 219). However, it deviated with regard to the value proposition in its materialization and the way it was positioned and advertised as part of a BLICK media and advertising platform.

In mid-2008, the change in organizational structure and management initiated in the seventh teleological cycle (T7) in stage 3 was still ongoing. The end of restructur-

ing was to be announced in January 2009 (Benini, 2009) and would still influence sensemaking in this fourth stage. In addition, the economy entered a severe crisis in the second half of 2008, which put considerable pressure on RINGIER's Swiss business (Ringier, 2009d).

5.2.5.2 Actions

Just as HEUTE had in summer 2006, BLICK AM ABEND entered a *new teleological cycle (T10)* of ongoing implementation and improvement (cf. arrow 24 between T8 and T10 in Figure 31). Although the editorial, production, and publishing staff was able to exploit what they had learned (cf. Sosna, et al., 2010) from HEUTE, they modified and optimized elements such as the newspaper's content several times after market launch (e.g., Persönlich, 2008c, 2009g).

BLICK AM ABEND had experienced two re-launches by the end of 2011. Until March 2009, the editor-in-chief was in the process of moderately adapting the newspaper's implementation of the value proposition (Persönlich, 2009g) (cf. Table 45, p. 225). Based on focus groups and reader feedback, the second more substantial re-launch emphasized positioning BLICK AM ABEND as a more "serious and respectable" newspaper by providing more news, longer texts, as well as more interviews and background analyses (Editor-in-Chief2, 2011; Persönlich, 2010a, 2011a). This development was driven in part by the desire to cater to a larger age group and in part by new opportunities that had developed with value creation from the integrated BLICK newsroom (Persönlich, 2011a, 2011b).

Ad display sales for the BLICK media platform (i.e., BLICK, SONNTAGSBlick, BLICK AM ABEND, and BLICK ONLINE) were integrated within a single sales team that sold all titles (Manager3, 2011; Manager4, 2011). Previously, HEUTE had shared a sales function with BLICK publishing; however, individual sales representatives had been in charge of just one newspaper title each (Editor-in-Chief1, 2011; Manager3, 2011).

Table 45: Relaunch-induced changes to the BLICK AM ABEND business model

Business model element	(Mini-) Relaunch 1 (03/2009)	Relaunch 2 (12/2010)
Value proposition	<p><i>What</i></p> <ul style="list-style-type: none"> ▪ Changes to the implementation of the value proposed to target readership <p><i>How</i></p> <ul style="list-style-type: none"> ▪ New columnists (e.g., writing about commuting) ▪ Columns illustrated with pictures ▪ New news section “news from Absurdistan” ▪ Reference to online content (tweet of the day) ▪ Additional page with national news and more attention to business news ▪ Community elements received more room 	<p><i>What</i></p> <ul style="list-style-type: none"> ▪ Changes to the implementation of the value proposed to target readership as well as appeal to older, more extensive target readership <p><i>How</i></p> <ul style="list-style-type: none"> ▪ Removal of three pages in the magazine part of the newspaper and inclusion of three more news pages ▪ Longer articles, interviews, and analyses ▪ Topic of the day on a double page ▪ More local services (e.g., reports on the opening of new shops/restaurant and more event tips) ▪ Special editors introduce new dvds, games, books, cars, music, etc. in weekly features ▪ More reader guidance in terms of design and layout

Source: Based on Editor-in-Chief2 (2011), Journalist1 (2011), and Persönlich (2009g, 2010a, 2010f, 2011a, 2011b).

BLICK AM ABEND distribution expanded in existing geographical markets (e.g., Persönlich, 2008b) and entered new geographical areas. Despite the recent investments in the development and launch of BLICK AM ABEND and despite shrinking advertising revenues in the recession⁸⁵, RINGIER’s resource-controlling executive committees granted permission to launch regional editions in St. Gallen, Lucerne, and Zug in March 2009 (Editor-in-Chief2, 2011; Manager1, 2011; Manager3, 2011; Persönlich, 2009a, 2009g; Ringier, 2009d). Three main arguments justified this geographic market expansion, which was driven by the head of BLICK publishing and the new CEO of RINGIER SWITZERLAND: First, BLICK AM ABEND reached more than 400,000 readers and a critical level of readership penetration, which made the free daily attractive for advertising clients (Manager1, 2011; Manager8, 2012). Second, the critical level of readership penetration allowed BLICK publishing to leverage its existing resources and competences for ad display sales targeting national campaigns (Manager3, 2011). RINGIER lacked both resources and competences to target the market of classified advertisers, which had been one of HEUTE’s problems in 2007 (Manager3, 2011). Finally, this additional investment in BLICK AM ABEND was ultimately an investment in the BLICK media platform’s overall attractiveness in the advertising market (Ringier, 2009a).

⁸⁵ Economically, 2009 was one of the worst years in RINGIER’s corporate history and the volume of the Swiss advertising market contracted by approximately 20 percent (Ringier, 2010a; Stadler, 2011a).

The investment in BLICK AM ABEND was a very strong sign of commitment since RINGIER was, at the same time, pursuing a rigorous cost-cutting program (Benini, 2009; Stadler, 2008). Among other things, the “fix it or close it” attitude led to the closure of its special interest business newspaper CASHDAILY (Manager5, 2011; Manager6, 2011).

BLICK AM ABEND launched its regional edition after summer holidays in August 2009 (Persönlich, 2009a). As was the case for Berne and Basel, a small local editorial staff produced daily local content for pages dedicated to regional news from St. Gallen and Lucerne (Persönlich, 2009b). The geographic expansion paid off: In January 2010, BLICK and BLICK AM ABEND were equal partners in the joint advertising pool DOPPELPAK (Manager4, 2011). In addition, the WEMF figures published in March 2011 displayed the positive effect of the extended geographic distribution: Readership had increased from 493,000 in March 2009 to 604,000 readers – just 19,000 fewer than BLICK (Persönlich, 2011c).

As a late consequence, the seventh teleological cycle (T7), initiated in stage 3, led to yet another change in RINGIER management as of the beginning of September 2008. The RINGIER board of directors appointed the editorial head of newspapers to the position of CEO of RINGIER SWITZERLAND (PERSÖNLICH, 2008K). In addition, the publishing manager who had administered the second administrative review of HEUTE was promoted to head of BLICK publishing (Ringier, 2009b). The new management also engaged in the sixth sensemaking cycle when it determined its strategy for the Swiss newspaper business (cf. arrow 26 between T7 and S6 in Figure 31).

Starting in autumn 2008, the management of RINGIER SWITZERLAND enacted order in the flow of activity by defining a new strategy for its Swiss operations (Manager6, 2011) in the *sixth sensemaking cycle (S6)*. Based on the complementarity of BLICK-branded media channels, a one-brand strategy was developed for the Swiss newspaper business (Benini, 2009; Persönlich, 2008k). The one-brand strategy consequently legitimized BLICK AM ABEND as a strategic investment for the BLICK media platform, which would allow targeting readership over different channels throughout an entire day (Manager1, 2011). Hence, the focus had shifted away from the free daily as a self-contained financially attractive business model to an integral part of a media platform:

“The free newspaper is certainly not the life-saving alternative the industry might wish it were. It may represent a new business model but it cannot replace the traditional newspaper. Nor is it the ultimate model for success, as the many mergers and shutdowns of free newspapers in recent months have shown. At RINGIER we believe in all media, the tradi-

tional and the new. And above all, we believe in linking and interconnecting these media” (Ringier, 2009d, p. 8)

With the impulse from the fourth dialectical cycle⁸⁶ (cf. arrow 25 between D4 and S6 in Figure 31), the relationship of thesis and anti-thesis were reinterpreted and integrated toward a synthesis of the two. Specifically, as a consequence of the one-brand strategy, the executive board developed plans to connect all three BLICK-branded newspapers and its online channels in the form of a new integrated business model spanning four media channels⁸⁷, with media content being produced from a single newsroom (cf. arrow 27 between S6 and T10 in Figure 31) (Manager1, 2011; Manager5, 2011; Ringier, 2009d). Thus, while the fifth sensemaking cycle in stage 3 had focused on legitimizing the complementarity of value propositions, the sixth sensemaking cycle built on this legitimacy when arguing for an integrated value creation and value capture.

The *eleventh teleological cycle (T11)* started with the specification of plans to integrate the different BLICK-branded newspapers and BLICK ONLINE within a single newsroom in autumn 2008 (Manager5, 2011; Persönlich, 2008m). This teleological cycle is both influenced by the sixth sensemaking cycle and teleological activity (T10) to implement and improve BLICK AM ABEND (cf. arrow 28 between T10 and T11 in Figure 31).

The first observable signs of integration before the newsroom were the centralization of all news-related online content on BLICK.CH in April 2009 and a cross-media campaign on an internet-based soap opera covered by all BLICK-branded news channels in September 2009 (Persönlich, 2009c).

The implementation of the newsroom, which was accompanied by a new head of BLICK publishing, led to a personnel cutback of 25 employees across the newspaper division (Persönlich, 2010c). These cutbacks did not affect journalists who produced written pieces but people in newspaper production in charge of functions such as layout and image and copy editing (Persönlich, 2010e).

The BLICK newsroom joined the editorial teams of BLICK, SONNTAGSBLICK, BLICK AM ABEND, and BLICK.CH in one central location, a new wing of RINGIER’s headquarters in Zurich (Persönlich, 2010b, 2010c). In a matrix structure, all journalists working for BLICK-branded titles were re-organized into seven new editorial sections:

⁸⁶ By the end of November 2009, the BLICK editor-in-chief and former first HEUTE editor-in-chief left RINGIER before the introduction of the newsroom (Persönlich, 2009i).

⁸⁷ The newspapers were reframed as channels of a news platform (Persönlich, 2009j).

News, People, Business, Politics, Sport, and Lifestyle (Manager11, 2010). At the same time, channel-specific editorial teams were shrunk to a mere core of an editor-in-chief and three dedicated deputy editors in charge of a newspaper's identity and market positioning (Persönlich, 2009e, 2009k; Schantin, 2010). Production was also integrated into a single "Visual" department (Schantin, 2010). This represented a profound shift in the value creation element of BLICK AM ABEND's business model (cf. Table 46).

On the positive side, BLICK AM ABEND had now had access to a broader pool of editorial resources and journalists (approximately 220 journalists) who were more knowledgeable in their respective areas of expertise (Persönlich, 2010f; Schantin, 2010). Furthermore, they gained in terms of speed in covering events across channels and improved on content coordination (Persönlich, 2011d). In addition, production from a single newsroom further strengthened legitimization of BLICK AM ABEND as an integrated part of the BLICK advertising platform.

However, the new form of value creation also presented three major challenges for BLICK AM ABEND (Controller1, 2011; Journalist1, 2011; Manager6, 2011; Persönlich, 2010d): First, work became more decentralized, which meant that individual journalists contributing content to the individual newspaper understood to a lesser extent how BLICK AM ABEND worked. In addition, collaboration was less direct and informal than it had previously been in HEUTE/BLICK AM ABEND's separate newsroom; decentralized work required following the chain of command.

Table 46: Business model of BLICK AM ABEND before and after newsroom

Business model element	BLICK AM ABEND (pre-newsroom; December 2009)	BLICK AM ABEND (post-newsroom; December 2010)
<i>Value proposition</i>	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> Color evening newspaper in tabloid format structured in six sections (news, people, sports, life, night, community) <p><i>Customer</i></p> <ul style="list-style-type: none"> Young and urban people (mainly commuters) on their way home or their way to evening leisure activities; aged 15 to 32, household income CHF 8,000 plus. <p><i>Customer Value</i></p> <ul style="list-style-type: none"> Support readers in the transition from work to leisure time in a useful and congenial way Substantial, clearly structured service section that supports commuters planning their leisure activities and stimulates pleasant anticipation Positive, relaxed, and optimistic tone (texts and pictures) Clearly structured, well comprehensible information Delivers conversation topics Actively cultivated community Access to a young target group with high reach in German-speaking part of Switzerland with BLICK/ HEUTE advertising pool (DOPPELPAK) 	<p><i>Unit of business</i></p> <ul style="list-style-type: none"> Color evening newspaper in tabloid format structured in six sections (news, people, sports, life, night, community) <p><i>Customer</i></p> <ul style="list-style-type: none"> Young and urban people (mainly commuters) on their way home or their way to evening leisure activities; aged 15 to 32, household income CHF 8,000 plus. <p><i>Customer Value</i></p> <ul style="list-style-type: none"> Support readers in the transition from work to leisure time in a useful and congenial way Substantial, clearly structured service section that supports commuters planning their leisure activities and stimulates pleasant anticipation Positive, relaxed, and optimistic tone (texts and pictures) Clearly structured, well comprehensible information Delivers conversation topics Actively cultivated community Access to a young target group with high reach in German-speaking part of Switzerland with BLICK/ HEUTE advertising pool (POWERDUO) Total audience of 2.5 million people in Switzerland
<i>Value creation</i>	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> Part of BLICK brand family and media platform Small editorial team Separate newsroom in different building integrating production and editorial staff BLICK publishing sells BLICK AM ABEND ad displays and combined advertising pool <p><i>Value network / Coordination</i></p> <ul style="list-style-type: none"> Decentralized printing Distribution contract with SBB Contracts with news wires, PR agency 	<p><i>Resources/ Competences</i></p> <ul style="list-style-type: none"> Part of BLICK brand family and media platform Small core editorial team in charge of the newspaper's editorial orientation/identity Integrated newsroom in new 3-story building with about 200 employees Integrated pool of editors and journalists providing content for four BLICK-branded media channels BLICK publishing sells BLICK AM ABEND ad displays and combined advertising pool <p><i>Value network / Coordination</i></p> <ul style="list-style-type: none"> Decentralized printing Distribution contract with SBB Contracts with news wires, PR agency

(Table continued on next page)

<i>Value communication and transfer</i>	<p>Communication</p> <ul style="list-style-type: none"> ▪ Online banners ▪ Outdoor ad displays ▪ Advertisements in industry journals ▪ Handout people ▪ Advertisements on local public transport in Zurich, Berne, Basel, Lucerne, Zug, and St. Gallen ▪ Image campaigns <p>Transfer</p> <ul style="list-style-type: none"> ▪ Inside-out concept ▪ 225,000 copies on distribution racks at train stations, public transport stops, gas stations, restaurants, and bars. ▪ Handout people 	<p>Communication</p> <ul style="list-style-type: none"> ▪ Online banners ▪ Outdoor ad displays ▪ Advertisements in industry journals ▪ Handout people ▪ Advertisements on local public transport in Zurich, Berne, Basel, Lucerne, Zug, and St. Gallen ▪ Image campaigns <p>Transfer</p> <ul style="list-style-type: none"> ▪ Inside-out concept ▪ 329,000 copies on distribution racks at train stations, public transport stops, gas stations, restaurants, and bars. ▪ Handout people
<i>Value capture</i>	<ul style="list-style-type: none"> ▪ Advertising revenues from national (i.e., German speaking part of Switzerland) campaigns and regional classifieds 	<ul style="list-style-type: none"> ▪ Advertising revenues from national (i.e., German speaking part of Switzerland) campaigns and regional classifieds

Note: Passages printed in boldface indicate deviation from configuration to the left. Source: Based on Benini (2009) Editor-in-Chief2 (2011), Persönlich (2009e, 2009g, 2009k, 2010b, 2010c, 2010d, 2010e, 2010f, 2011d), and Ringier (2007a, 2008a, 2009a).

Moreover, one of the benefits of working for RINGIER's free newspaper had been the opportunity to flexibly switch between editorial departments, which was not provided for with the new specialization. Second, the four "channels" (BLICK, SONNTAGSBLICK, BLICK AM ABEND, and BLICK.CH) shared a relationship characterized by co-opetition. RINGIER addressed the conflict potential of this relationship with a set of twelve newsroom rules that emphasize brand identity and discuss content ownership and priority (cf. Table 47, p. 231).

Third, value creation from the integrated newsroom challenged the low-cost, high effectiveness logic that had served as a consistent theme to coordinate the free daily's business model elements since May 2006. This was addressed by defining a five-tier classification of stories (A through E) and determining what each title would need:

"A refers to a 'major story with front-page potential that will appear in print and online', B to a 'major story for print and/or online', C to a 'minor story for print and/or online', D to 'standards such as columns or news columns', and E to 'external content', such as the weather pages" (Schantin, 2010, p. 11).

BLICK AM ABEND still included these contents in a standard layout structure and had desk research journalist rewrite and synthesize D and E content (Schantin, 2010). In addition, a special department within the newsroom, "Administration", was in charge of editorial controlling and reported directly to RINGIER's finance department (Editor-in-Chief2, 2011; Schantin, 2010).

Table 47: RINGIER's twelve newsroom rules

No.	Rule
1	"The stories of the day are handled by all media. All brands are continuously involved in their planning and realization."
2	"Multimedia presentation methods such as moving image, live ticker, original sound recording, etc. must be taken into account every time a story is planned."
3	"Control over a story always lies with the brand that suggested or commissioned it."
4	"The committee of the Editors-in-Chief decides which content runs on which brands."
5	"No single editor has the authority to make decisions in this matter."
6	"The expiry date of a current story plays an important role in the choice of channel."
7	"For breaking news and exclusive stories with a foreseeable expiry date the rule is: online first!"
8	"With all other scoops, the rule is pay channels before free channels."
9	"If the Editors-in-Chief cannot reach an agreement, the newsroom's journalistic manager decides."
10	"Each publication retains its journalistic independence. Of course, all brands can decide to pool their strengths in individual cases (campaign power)."
11	"The editor who brings in a top story is mentioned in the byline. Follow-up articles on other channels always mention the original brand."
12	"If an external informer reveals his story exclusively to a specific brand, this will be respected when published."

Source: Schantin (2010, p. 14).

Newsroom integration did pay off for the entire BLICK group and BLICK AM ABEND. The free daily was able to provide slightly more substantial content, which made it more relevant to a broader target audience (cf. Table 45). In autumn 2011, BLICK AM ABEND (635,000 readers) surpassed Blick (622,000 readers) in the readership market, advancing to the second most widely read Swiss daily newspaper (Stadler, 2011b). In addition, the free newspaper's ad display sales figures grew considerably in 2011 (Ringier, 2012).

5.2.5.3 Consequences and conclusion

At the end of stage 4, RINGIER had integrated its free evening daily, BLICK AM ABEND, with its incumbent flagship newspaper, BLICK, in two ways: As a media platform, its newspaper titles constituted an integrated offering in the advertising market, providing access to a total audience of about 2.5 million people in Switzerland (Persönlich, 2010b, 2011d). In addition, the two newspapers were produced from a single integrated newsroom, which changed value creation for both titles (Schantin, 2010). Taken together with the modified value proposition at the end of stage 3, BLICK AM ABEND, as produced from the newsroom, represented RINGIER's second innovation of the free daily business model.

Contextualizing events at the time of stage 4 also contributed to the successful development of BLICK AM ABEND and the newsroom: First, (PUNKT).CH closed down its operations in May 2009, which resulted in about 20,000 additional readers for BLICK AM ABEND (Persönlich, 2009g). Second, BLICK was re-launched before newsroom integration for its 50st anniversary in October 2009 (Persönlich, 2009f). Four years earlier, BLICK had been inspired by 20 MINUTEN's success on the advertising market and changed to a tabloid format, a move that, however, brought it closer to free dailies that delivered – at least to some extent – similar content (Meier & Häussler, 2010b). On October 14, 2009, BLICK was re-launched with a return to its core values (i.e., “tough” boulevard in broad-sheet format), new service elements, references to online content, and a focus on the reader (Meier & Häussler, 2010b; Persönlich, 2009f).

In conclusion, one sensemaking motor, one dialectical⁸⁸ and two teleological motors were in operation throughout stage 4. As HEUTE had in Summer 2006, BLICK AM ABEND entered a teleological cycle (T10) of ongoing implementation and improvement after market launch. However, the adaptations to the initial concept were not as far-reaching as they had been for HEUTE because BLICK AM ABEND was able to exploit what had been learned in the production of a free daily at RINGIER. The integration and synergies of the old and new newspaper business model were taken further within the sixth sensemaking cycle (S6) as a result of the developments initiated by the fifth sensemaking cycle (S5) in stage 3 and the fourth dialectical cycle (D4) in stages 3 and 4. A new business model of the free daily as part of an integrated media platform is finally the outcome of a newsroom integration that changed previously unaltered aspects of free newspaper value creation in the eleventh teleological cycle (T11).

The reported consequences and conclusions for the case study's fourth stage close the case narrative of RINGIER's business model innovation initiatives in the free newspaper business. Chapter B6 discusses the implications of the observed incumbent innovation behavior in the light of the selected theoretical and conceptual lens and summarizes the gist in the form of nine propositions, which heuristically generalize (Tsoukas, 2009) beyond the instance of the single case site studied.

⁸⁸ Note that this instance of a generative mechanism is only depicted in stage 3 for graphical reasons. The fourth dialectical cycle's time index in the graphic depicts the temporal overlap with motor working in stage 4.

6 Case study discussion

6.1 Discussion of the process model

The discussion of the process model relates back to the first research question, which addresses our lack of knowledge on the pattern of activities and underlying generative mechanisms (Aspara, et al., 2012; Sosna, et al., 2010; Svejenova, et al., 2010; Zott & Amit, 2008) driving business model innovation in established organizations that choose to introduce a new business model besides their existing one:

1. What generative mechanisms drive the process of business model innovation of incumbent organizations?

In particular, this subchapter discusses three aspects of the business model innovation process: First, the generative mechanisms that operate to produce business model innovation; second, how these motors relate to each other in a way that can potentially be generalized beyond RINGIER's free newspaper case study; and third, how a priori expectations relating to the five core concepts (i.e., ideas, people, transactions, context, and outcomes) were met by the case study. The subchapter ends with a discussion of limitations.

In total, three distinct generative mechanisms drive business model innovation throughout the case study: a sensemaking, a dialectical, and a teleological. These three mechanisms were identified following an abductive logic of discovery (cf. chapter A1.4.1) in an intensive case study design (Ackroyd, 2009) and following the methodological procedure reported in chapter B4. The logic of discovery combined an in-depth understanding of the power and tendencies of entities to activate generative mechanisms in a specific structural and historical context as well as local actors' ideas and interpretive schemes (Ackroyd, 2009; Reed, 2009).

Sensemaking is activated at the very beginning of the setting that is of interest to this study (cf. chapter A1.1): i.e., when new market entrants introduce a new business model to the industry context of an established, incumbent organization. Furthermore, sensemaking operates in a number of instances, termed "cycles", throughout the case study. Organizational actors at the top-management level make sense of the uncertainty and ambiguity in the flow of experience by constructing events (e.g., event "market entry" in S1), locating them in a frame of reference⁸⁹ (e.g., threat/opportunity assess-

⁸⁹ The discussion in chapter B6.2 will highlight the role of frames of reference in selecting meaning in connection with the cognitive aspects of business models (Aspara, et al., 2012; Tikkanen, et al., 2005) with relation to the second research question.

ment in S1) to create “a locally plausible story” (Weick, et al., 2005, p. 414) that guides actors’ activities (Weick, 1995; Weick, et al., 2005). Coupled with instances of the teleological and dialectical mechanisms that were operating, sensemaking produced action toward the specification and implementation of a new, second business model alongside existing operations in an incumbent organization.

Instances of *teleological* mechanisms operate throughout the process case study (Poole & Van de Ven, 2004). Organizational actors, mainly at the operational and middle management level, activate teleological cycles by defining goals and working toward their achievement in cycles of evaluation and modification (Poole & Van de Ven, 2004). In the case study, the actors search for ideas, learn about value creation and value capture, develop and experiment with new business model configurations, and subsequently implement them in a manner suggested by McGrath’s (2010) and Sosna and colleagues’ (2010) process models. Top-down initiated teleological processes are initiated by other generative mechanisms – particularly sensemaking. However, bottom-up initiatives such as captured by the third teleological cycle (T3) also exhibit the potential to drive other processes and feed into business model development (Demil & Lecocq, 2010).

Finally, the *dialectical* mechanism is activated by latent and instantiated conflict and tension between the old business model (i.e., thesis) and new business model (i.e., anti-thesis) at different organizational levels (Poole & Van de Ven, 2004). Instances of dialectic mechanisms operating are present throughout the entire time period studied. However, as for sensemaking, there are periods of more intense focus on the dialectic aspects as indicated by the time indices of instance D1 through D4. To deal with these instances of conflict and tension in the case study, organizational actors make efforts to define and legitimize a meaningful and serviceable relationship configuration. The relationship⁹⁰ is located on a continuum between integration and separation (Markides & Charitou, 2004) and tries to harness the incumbent’s advantage (Iansiti, et al., 2003).

The case narrative presented in chapter B5 detailed instances of generative mechanisms working over time (cf. Figure 26, p. 169) to produce two cases of business model innovation (i.e., the business model of HEUTE in stage 2 and BLICK AM ABEND at the end of stage 4). When we aggregate the instances of generative mechanisms tracked on the basis of event structure analysis (Griffin, 1993; Pajunen, 2008), we find

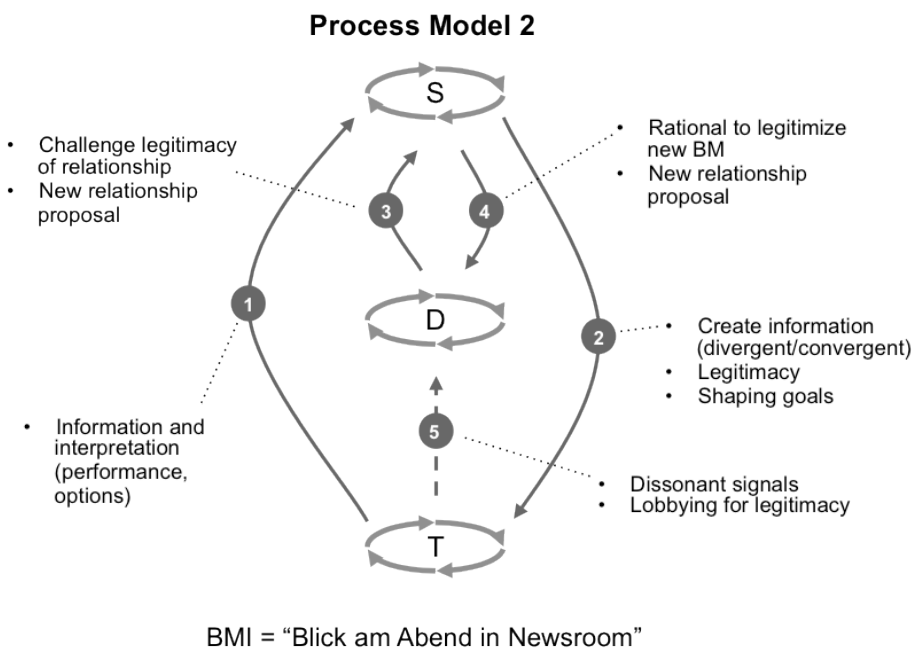
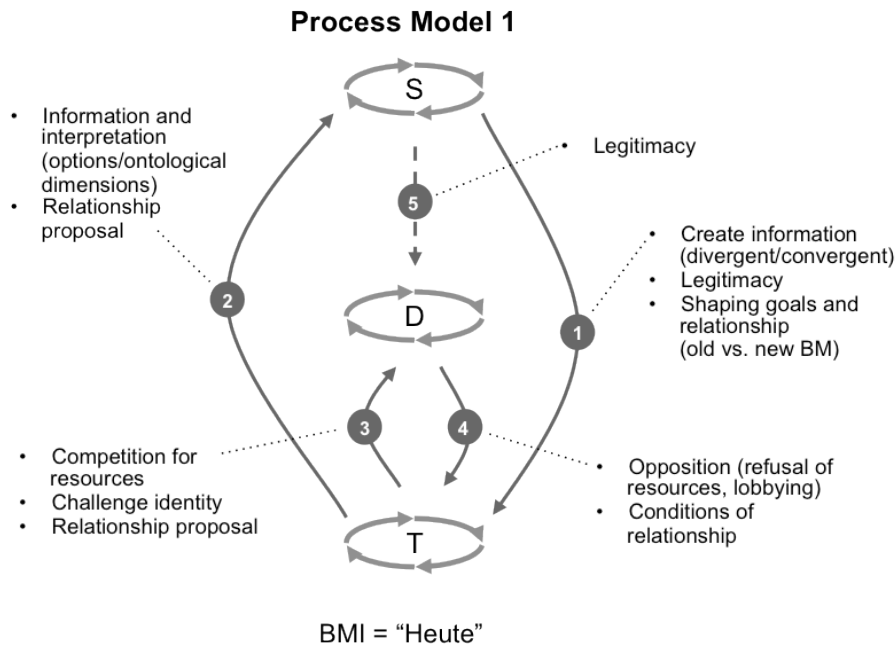
⁹⁰ The discussion in chapter B6.3 will focus on how the old and new business model were accommodated in the incumbent organization over time (Van de Ven, et al., 2008).

that *two distinct process model configurations* drove business model innovation (cf. Figure 32).

The *first process model configuration* depicts the main interactions of the three kinds of generative mechanisms, which led to RINGIER's first instance of business model innovation, the HEUTE free newspaper. The impulse that initiated the process model was ecological change in the form of new market entrants competing on the basis of a new business model and the declining performance of the existing business (Weick, et al., 2005). Five arrows in Figure 32 (p. 236) depict the interactions of the three generative mechanisms:

Arrow 1 depicts how sensemaking initiated and subsequently drove teleological activity with regard to three aspects (cf. S3 and S4): First, top managers initiated a lower level teleological process to create information as part of enacting the ambiguous and uncertain situation (Weick, et al., 2005). This information was to serve as an input for the subsequent selection of meaning in managers' sensemaking (Weick, et al., 2005). As sensemaking and the teleological information interacted, the information required diverged (i.e., broad input and initial ideas) and converged (i.e., specific information on detailed options) (cf. Van de Ven, et al., 2008). Second, sensemaking provided the innovation team's teleological activity with the (top-down) legitimacy (cf. Drori & Honig, 2013) to start and continue working on a free newspaper business model. The legitimacy of the teleological activity was updated as sensemaking progressed and its meaning was framed and integrated into a "plausible story" (Weick, et al., 2005). Finally, sensemaking defined and re-defined the goals of the teleological mechanism on the basis of selected meaning (Weick, et al., 2005). Particularly, the "plausible story" resulted in an adaptation of the organization's strategic context (Burgelman, 1983b) to accommodate free newspaper operations and the definition of a relationship between the existing and new business model.

Figure 32: Two process model configurations driving business model innovation



Note: "S": Sensemaking mechanism; "D": Dialectical mechanism; "T": Teleological mechanism; "BMI": Business model innovation; dotted arrows represent indirect relationship. Source: Own representation.

Arrow 2 represents the two ways in which the teleological activity at an operational level contributed to sensemaking at top management level (cf. T2 and T3): First, the teleological activity contributed to managers' sensemaking with information and inter-

pretations in the form of strategic options and ontological dimensions (cf. Porac, Ventresca, & Mishina, 2002). This contribution influenced the subsequent selection of meaning (cf. Weick, et al., 2005) regarding both the business model and the relationship between the existing and new business. Second, the teleological mechanism provided sensemaking with a refined and substantiated relationship proposal on the basis of the innovation team's teleological activities.

Arrow 3 details how teleological activity contributed to the dialectic tension between the new and old business model (cf. T3, T4, and T5). In particular, the unit developing the new business model challenged the identity of the existing business (i.e., "classical journalism") (cf. Bouchikhi & Kimberly, 2003; Teece, 2010; Tripsas, 2009) and represented new competition for internal resources (cf. Bucherer, et al., 2012; Danneels, 2011; McGrath, 2010; Tripsas & Gavetti, 2000; Zott & Amit, 2010). Moreover, the teleological mechanism also contributed the relationship proposal to the dialectic interaction between proponents of the old and new business model.

Arrow 4 details the influence of the dialectic mechanism on the teleological mechanism (cf. D2 and T5). The teleological activities were met with opposition. The existing business did reject the idea of redirecting resources to the use of the new business model (cf. Bucherer, et al., 2012; Danneels, 2011; McGrath, 2010; Tripsas & Gavetti, 2000; Zott & Amit, 2010) and lobby against the new business model. In addition, the strong backing of the anti-thesis in the dialectical mechanism resulted in demands regarding the conditions of the relationship between the paid-for and free newspaper business model. These included avoiding cannibalization and eventually resulted in minimal integration and low levels of mutual interference.

Finally, arrow 5 represents an indirect relationship between sensemaking and the dialectical mechanism (cf. S4). The sensemaking mechanism interfered with the dialectical interaction between the old and new business model by providing the innovation project team in pursuit of the new business model with legitimacy. The motive for this intervention was to avoid a one-sided dominance of the thesis over the anti-thesis (Poole & Van de Ven, 2004), which could have caused a premature end to innovation efforts.

As the description of the five arrows above indicates, the three generative mechanisms in the first process model share different types of relationships (cf. chapter A2.5.1 for criteria) (Poole & Van de Ven, 2004): First, the sensemaking and the teleological mechanism share a nested relationship. The lower-level teleological activity drives higher-level sensemaking by providing it with information and interpretation

and, in turn, the higher-level sensemaking affects the goal setting and evaluation of the lower level teleological mechanism. This direct linear relationship appears to be positive (i.e., same sign). Second, the dialectical and teleological mechanisms share an entangled relationship. The two mechanisms influence each other but are not tightly linked and only acting in a coordinated manner at times and their direct linear relationship appears to be negative (i.e., opposite sign). Finally, the sensemaking and dialectical mechanism share an indirect linear relationship of a negative nature, which is mediated through the teleological mechanism. For all three relationships, the case study does not provide conclusive evidence with regard to the temporal aspects of generative mechanisms (cf. Poole & Van de Ven, 2004).

The *second process model* configuration in Figure 32 depicts the main interactions of the three kinds of generative mechanisms, which led to RINGIER's second new business model, the BLICK AM ABEND free newspaper as part of the integrated BLICK newsroom. The impulse that initiated the second process model resulted mainly from the evaluation of teleological activities within the incumbent organization. As in the first process model, five arrows indicate the interactions of the three generative mechanisms:

Arrow 1 represents how the teleological activity at an operational level initiated and contributed to sensemaking at the top management level (cf. T6 and T8). As in process model 1, the teleological activity contributed information and interpretations in the form of strategic options that influenced the subsequent selection of meaning in sensemaking (cf. Weick, et al., 2005) regarding both the business model and the relationship between the existing and new business. However, besides strategic options, the information and interpretation contributing to sensemaking concerned the performance of the first business model innovation initiative rather than new ontological dimensions. Moreover, the relationship between the old and new business model was no longer a subject of interaction between the teleological and sensemaking mechanism.

Arrow 2 depicts how sensemaking subsequently drove teleological activity with regard to three aspects (cf. S5 and S6): First, the information and interpretation teleological activity contributing to sensemaking at the top management level created dissonance. The input from the teleological mechanism did not meet the expectations raised by the "plausible story" (Weick, et al., 2005, p. 414) that originally legitimized the engagement in the free newspaper business. Thus, to address this ambiguous situation that represented an occasion for sensemaking (Weick, et al., 2005), top managers initiated a new lower-level teleological process to create information – just as had been the

case in process model 1. Again, as sensemaking and the teleological information interacted, the requirements for information diverged and converged (cf. Van de Ven, et al., 2008). Second, the sensemaking mechanism provided teleological innovation efforts with the necessary legitimacy to re-start and continue the endeavor to develop a new business model. Finally, sensemaking defined and re-defined the goals of the teleological mechanism on the basis of the selected meaning of past and current events (Weick, et al., 2005).

Arrow 3 details how the dialectic mechanism contributed to sensemaking (cf. D3 and D4). The dialectic mechanism spurred new sensemaking when advocates of the thesis (Poole & Van de Ven, 2004) challenged the legitimacy of the relationship between the existing and new business model on the basis of dissonant signals coming from the innovating unit (cf. arrow 5). As the dialectic and sensemaking mechanism subsequently interacted (cf. arrow 4), an adapted “plausible story” (Weick, et al., 2005, p. 414) developed that legitimized a new, integrated relationship between the new business model.

Arrow 4 represents the influence of sensemaking on the dialectic mechanism (cf. S5 and S6). Managerial sensemaking resulted in a new rationale to legitimize the incumbent organization’s engagement in the free newspaper business. Moreover, as a result of the interaction between the dialectic and sensemaking mechanism, managers introduced a new proposal for a relationship setup with closer integration between the new and existing business model based on the adapted “plausible story” (Weick, et al., 2005, p. 414).

Finally, arrow 5 refers to the indirect relationship between the teleological and the dialectical mechanism (cf. D3 and T6) in the second process model. The teleological mechanism stimulated the dialectical interaction between the old and new business model. The dissonant signals resulting from the teleological activities led advocates of the paid-for newspaper to reassess the terms of the relationship between thesis and the anti-thesis (Poole & Van de Ven, 2004). However, via the sensemaking mechanism, defendants of the free newspaper business model also tried to influence dialectic interaction by lobbying for the legitimacy of the “plausible story” (Weick, et al., 2005, p. 414) that had initially been developed for the market launch of HEUTE.

As was the case for the first process model, the three generative mechanisms in the first process model share different types of relationships (cf. Poole & Van de Ven, 2004): First, as in process model 1, the sensemaking and the teleological mechanism share a nested relationship that is both direct and positive (i.e., same sign and linear).

Second, the sensemaking and dialectical mechanism share a nested relationship that appears to be complex according to Poole and Van de Ven's (2004) terminology. The lower-level dialectical conflict drives higher-level sensemaking and, in turn, higher-level sensemaking affects the ways of dealing with conflict and tension in the lower-level dialectical mechanism. Finally, the dialectical and teleological mechanisms share an indirect linear relationship of a negative nature, which is mediated through the sensemaking mechanism. For all three relationships, the case study does not provide conclusive evidence with regard to the temporal aspects of generative mechanisms (cf. Poole & Van de Ven, 2004).

Table 48 summarizes the similarities and differences of the two process-model configurations that were derived from the case study presented in chapter B5.2.

Table 48: Comparison of process model configuration 1 and 2

	Similarities	Differences
Relationship of mechanisms	<ul style="list-style-type: none"> ▪ S and T share a nested relationship. ▪ D shares both a mediated and a direct relationship (with either S or T dependent on the configuration). 	<ul style="list-style-type: none"> ▪ D and T share an entangled relationship (direct, negative) in configuration 1 but a non-hierarchical relationship (indirect, negative) in configuration 2. ▪ S and D share a non-hierarchical relationship (indirect negative) in configuration 1 but a nested relationship (complex) in configuration 2.
Subject of interaction	<ul style="list-style-type: none"> ▪ Enactment in S requires T to create information of divergent or convergent nature dependent on the progress of S. ▪ S provides the legitimacy for T – either ex-ante or ex-post. ▪ S shapes the goals and evaluation of progress of T. ▪ T contributes information and interpretation in the form of strategic options to S. ▪ S affects the handling of conflict in D related to legitimacy and the relationship between thesis and anti-thesis. 	<ul style="list-style-type: none"> ▪ T contributes ontological dimensions to S only in configuration 1 but not in configuration 2. Instead, options are complemented with information on and interpretation of performance in configuration 2. ▪ Matters of legitimacy and relationship between thesis and anti-thesis develop in interaction between S and D in configuration 2. Whereas in configuration 1, content of relationship between thesis and anti-thesis mainly develops⁹¹ in interaction between T and S. In addition, legitimacy originates purely from sensemaking in configuration 1. ▪ Matters of resources, identity, and the terms of relationship are the subjects of interaction between D and T in configuration 1. In contrast, T indirectly contributes to D in configuration 2 in terms of dissonant signals that trigger a reassessment of the terms of relationship and in terms of lobbying for the anti-thesis' legitimacy.

Note: "S" denotes a sensemaking mechanism; "T" denotes a teleological mechanism; "D" denotes a dialectical mechanism. Source: Own representation.

⁹¹ That is despite the terms of relationship being part of the interaction between the dialectic and teleological mechanism in process model 1 (cf. arrows 3 and 4).

Overall, the discussion of the two distinct process model configurations in this chapter allows drawing a number of *conclusions* about incumbent organizations' business model innovation efforts in the form of propositions that answer the first research question. The first and last propositions (1, 4a, and 4b) relate to the overall process model in terms of constituent generative mechanisms and the production of business model innovation. In contrast, propositions 2, 3a, and 3b specify the relationships of generative mechanisms within the process model configurations.

First, incumbent organizations that wish to innovate their business model alongside their existing operations are required to do more than fund an innovation team that progresses through the logic of an innovation funnel (e.g., Bucherer, 2010; McGrath, 2010; Sosna, et al., 2010; Tidd & Bessant, 2009). Overall, the case analysis suggests that three interlocking generative mechanisms drive the business model innovation process in incumbent organizations:

Proposition 1

Business model innovation at incumbent organizations is driven by three related generative mechanisms: sensemaking, dialectics, and teleology.

The *sensemaking mechanism* is preoccupied with the meaning of the new in terms of different dimensions pertaining to aspects of value creation and capture (Porac, Thomas, & Baden-Fuller, 2011; Porac, et al., 2002; Tikkanen, et al., 2005) as well as the integration of the meaning in a "a locally plausible story" (Weick, et al., 2005, p. 414) that legitimizes the new business model and guides action (Drori & Honig, 2013; Weick, 1995; Weick, et al., 2005). The *dialectical mechanism* is related to handling tension and conflict potential between the existing and the new business model in terms of finding a workable balance (cf. Markides & Charitou, 2004) that pays attention to issues of identity (Bouchikhi & Kimberly, 2003; Teece, 2010; Tripsas, 2009), competition for resources (Bucherer, et al., 2012; Danneels, 2011; McGrath, 2010; Tripsas & Gavetti, 2000; Zott & Amit, 2010), and cannibalization in the market (Teece, 2010). Finally, the *teleological mechanism* concerns all the organizational level innovation work involved in innovating the business model configuration in an incumbent setting by means such as generating new ideas, learning about value creation and value capture, and developing and experimenting with new business model configurations before implementing them in the market (e.g., Demil & Lecocq, 2010; McGrath, 2010; Sosna, et al., 2010).

This does not imply, however, that the past emphasis of business model research on teleological innovation activity was misguided or unjustified. On the contrary, it helped us to appreciate important points such as essential opportunities and barriers in the business model innovation process (e.g., Chesbrough, 2010), the relevance of trial-and-error learning and experimentation (e.g., McGrath, 2010; Sosna, et al., 2010), design themes for new business models (Amit & Zott, 2001, 2012), and lessons that can be transferred from other innovation types (e.g., Bucherer, et al., 2012). Accordingly, the two proposed process model configurations (cf. Figure 32, p. 236) acknowledge these insights when they argue that systemic innovation of value creation and capture (Sosna, et al., 2010; Teece, 2010) is driven by teleological innovation activity on an operational level as well as a sensemaking and dialectic mechanism.

Second, both process models suggest that the sensemaking mechanism and teleological mechanism share a nested relationship in producing business model innovation:

Proposition 2

Sensemaking and teleology share a nested relationship in producing business model innovation in an incumbent organization.

Sensemaking at the top-management level deals with the stream of events and stimuli that present instances to make sense of that are either initiated from within the incumbent organization or by ecological change (Demil & Lecocq, 2010; Weick, et al., 2005). Managerial enactment requires the teleological activity to search for information given vaguely defined goals, which results in a divergence of simultaneously pursued ideas (Poole & Van de Ven, 2004; Van de Ven, et al., 2008). Yet, as sensemaking on the subject progresses to the selection of meaning and retention of a “plausible story” (Weick, et al., 2005, p. 414), goals become more specific as does the input to sensemaking of teleological mechanisms in terms of information and interpretation (Poole & Van de Ven, 2004; Van de Ven, et al., 2008). Two specific aspects of interaction between the teleological and sensemaking mechanism have been of interest to prior research. First, how this information and interpretation is related to mental models of the incumbent organization’s ways of value creation and value capture is the focus of research occupied with the cognitive aspects of the business model (e.g., Aspara, et al., 2012; Tikkanen, et al., 2005) (cf. chapter B6.2). In addition, the formation of the “plausible story” (Weick, et al., 2005, p. 414) parallels the rationaliza-

tion of a new internal corporate venture in Burgelman's (1983c) seminal ICV process model.

Third, the two process model configurations that produced business model innovation for the case of the analyzed incumbent case site suggest different relationships between the dialectic and the other two generative mechanisms. Process model 1 proposes:

Proposition 3a

In producing business model innovation, the dialectical mechanism shares an entangled relationship with the teleological mechanism and an indirect relationship with the sense-making mechanism.

In this first configuration, the dialectic tension and conflict between the old and new business model centers around matters of resource competition (cf. Bucherer, et al., 2012; Danneels, 2011; McGrath, 2010; Tripsas & Gavetti, 2000; Zott & Amit, 2010) and identity (cf. Bouchikhi & Kimberly, 2003; Teece, 2010; Tripsas, 2009) as well as the terms of the relationship between the thesis and anti-thesis. In support of the new business model, sensemaking provides the anti-thesis with legitimacy (Drori & Honig, 2013) to avoid a potential premature end to innovation efforts on the basis of internal opposition. The business model (e.g., Bucherer, et al., 2012) as well as internal corporate venturing (e.g., Burgelman, 1983c) and innovation process literature (e.g., Van de Ven, et al., 2008) pointed to the pivotal role of innovation champions supporting innovation efforts in such situations.

However, process model 2 suggests a different relationship between the dialectic mechanism and the other generative mechanisms:

Proposition 3b

In producing business model innovation, the dialectical mechanism shares a nested relationship with the sensemaking mechanism and an indirect relationship with the teleological mechanism.

In this second configuration, the legitimacy of the new business model and the relationship setup of the thesis and anti-thesis develop as the outcome of the interaction of a lower-level nested dialectic mechanism that drives a higher-level sensemaking mechanism (Poole & Van de Ven, 2004; Weick, et al., 2005). Hence, unlike in the first process model, the legitimacy (Drori & Honig, 2013) is not just provided by the sensemaking mechanism to reduce dialectical tension. Instead, legitimacy and the def-

initiation of the relationship between the old and new business model develop in connection with each other.

Finally, both process model configurations produced business model innovation in the sense of a new configuration that was “institutionalized” (Van de Ven, et al., 2008), which served as one central criterion to judge the success of an innovation process in the Minnesota Studies. The process study presented in this dissertation does not allow favoring one of the two process model configurations on the basis of necessary and sufficient causality (Poole, et al., 2000). The case analysis provides evidence of the necessary causation for both models in terms of their outcome, the pattern that led to the outcome, and “the origin of movement” (Poole, et al., 2000, p. 42). Nonetheless, two competing propositions prevail:

Proposition 4a

Process model configuration 1 and 2 each independently explain business model innovation in the context of an incumbent organization.

Given the available data, it remains ambiguous whether a process model configuration that combined the two models by integrating the nested relationship of the dialectical and sensemaking mechanism from the second model in process model 1 (instead of the indirect arrow 5) would have yielded earlier and/or more sustainable “success” by achieving an integrated development of the new business model’s legitimacy as well as the relationship of the thesis or anti-thesis.

Moreover, it might also be the case that the top-down definition of legitimacy as part of the sensemaking mechanism in the first model was necessary to enable the development of the new business model early in its development. This interpretation would indicate that the relationship could not have been defined in a way that would have enabled integrating the new business model in a “plausible story” (Weick, et al., 2005, p. 414) because of the high levels of ambiguity and uncertainty involved. Thus, this would imply that the two models represent a necessary temporal sequence – unless the relationship defined in disconnection from the definition of the relationship between the thesis and anti-thesis is a result of chance. Proposition 4b therefore concludes:

Proposition 4b

Process model configuration 1 and 2 jointly explain business model innovation in the context of an incumbent organization when combined in consecutive order.

The main contribution of these two process model configurations is the way they provide us with a more versatile perspective (cf. Pajunen, 2008; Poole, et al., 2000) on business model innovation in an incumbent context. In this context, business model innovation is the result of three interlocking mechanisms that operate at different levels. A higher-level sensemaking mechanism and lower-level dialectical and teleological mechanisms drive the configuration of the new business model, the legitimacy of innovation efforts, and the terms of the relationship between the incumbent organization's old and new business model. The relationships of these mechanisms are based on longitudinal tracking of the patterns of activities and events (Abbott, 1990; Van de Ven, 2007), which produced business model innovation in the case of an incumbent organization that was sampled on theoretical grounds (cf. chapter B4.1). The process models "do not presume to present invariant laws or provide unconditional predictions [...] instead, they seek to increase our understanding" (Pajunen, 2008, p. 1449) of how business model innovation works as a complex social process.

The case analysis also faces three noteworthy limitations. First, the two process models combine the local knowledge and priorities of organizational actors accessed in retrospect with generative accounts of generative mechanisms (Ackroyd, 2009; Griffin, 1993; Heise, 1989) for the case of two cases of business model innovation with spatial and temporal variation (Gerring, 2007). The influence of other causal mechanisms (Miller & Tsang, 2011; Pajunen, 2008) may have been lost because of limits to human recall (Heise, 1989) and their absence in the primary and secondary documents used to triangulate interviewees' accounts (cf. chapter B4.5.2). The mechanisms represented in the two process models (cf. Figure 32) were deemed the most relevant based on multiples sources of evidence, key actors and stakeholders representing multiple perspectives (Ackroyd, 2009; Reed, 2009), and on the researcher's sensemaking with reference to existing theory (Cule & Robey, 2004; Langley, 2009; Poole & Van de Ven, 2004).

Second, as has been a challenge in other studies (Weick, 1995; Weick, et al., 2005), sensemaking was accessible in terms of retrospective accounts and the sense made, rather than the actual process itself. Meeting protocols, which would have documented the working of the sensemaking mechanism to a certain extent, were not disclosed for confidentiality reasons. As corporations tend to consider the contingent aspects of their business models strategically sensitive issues (Casadesus-Masanell & Ricart, 2010b; Casadesus-Masanell & Zhu, 2013; Teece, 2010), researchers face a tradeoff between the quality of human recall and access to key participants in the in-

novation process, on the one hand, and the disclosure of corporate documents, on the other hand. Moreover, the limited access to actual sensemaking also justifies the limited and undifferentiated focus on the sensemaking of the managerial elite.

Third, the external validity of the process models relies on heuristic generalization that allows improving our understanding of the phenomenon of interest by refining and elaborating existing models of business model innovation in an open-ended dialog between the particular case and the theoretical model (Tsoukas, 2004). Nonetheless, the single case study design is clearly limited in terms of statistical generalization (Yin, 2003).

Concluding this chapter, we also revisit the a priori expectations relating to the five core concepts (i.e., ideas, people, transactions, context, and outcomes) formulated in chapter A2.6.2.

It was not the purpose of the case analysis in chapter B5.2 to test predictions about the behavior of the a priori concepts with a sample of two instances of business model innovation. The number of variables would have outnumbered the available observations by far (Yin, 2003). Instead, the a priori concepts were tracked to focus data collection and support building the connection between research question, case study, and the existing literature (Eisenhardt, 1989; Gephart, 2004; Weick, 2007).

However, the appraisal of expectations about the five core concepts within the case study is reported in summary (cf. Table 49) because the results from this study, which has been designed for heuristic generalization (cf. chapter B4.1), may contribute to future theorizing (Tsoukas, 2009) and serve as managerial guidelines for organizations in other industries.

Table 49: A priori expectations revisited

Concept	Expectation	Appraisal
<i>Idea</i>	1. The business model innovation is not the brainchild of a single innovator born at a precise moment in time.	Applies to this case study. (cf. descriptions of T1 and T3)
	2. Shocks mobilize and focus efforts to develop new ideas and implement a new business model.	Applies to this case study. (cf. descriptions of S2 and S3)
	3. The path of the innovation project is likely non-linear (fraught with setbacks and crises) and results from a mixture of emergent and intended efforts.	Applies to this case study. (cf. descriptions of T3 and D3)
	4. The ideas for new business model configurations are likely to proliferate and develop in parallel.	Applies to this case study (cf. description of T2 and T4)
	5. Conflict is likely to occur between the existing business model (representing old ideas) and the new business model (representing new ideas)	Applies to this case study. (cf. description of D2 and D3)
<i>People</i>	1. Business model innovation requires people to learn about value creation and value capture.	Applies to this case study. (cf. description of T5, T6, T8, and T9)
	2. People are incapable of designing the new business model in all its elements and architecture without market learning.	Applies to this case study. (cf. description of T6 and T10)
	3. Learning from successful experiments and failures improves people's understanding of the new business model configuration.	Applies to this case study. (cf. description of T5)
	4. Innovation champions are likely to matter for the support of the business model innovation project.	Applies to this case study. (cf. description of T2, T5, and T8)
	5. Business model innovation is likely to require people at different levels and in different parts of the innovating organization to contribute their skills and energy levels for the endeavor to succeed.	Applies to this case study. (cf. description of S5 and T8)
	6. People's existing mental models and cognitive abilities matter in both the perception of the opportunity to innovate and the development and implementation of a new business model.	Applies to this case study. (cf. description of D2, D4, S4, and S5)
<i>Transactions</i>	1. Knowledge and other resources necessary for the business model innovation project may result from relationships with external transaction partners.	Applies to this case study. (cf. description of S3)
	2. Relationships with transaction partners may lock the business model innovation endeavor into specific developmental paths.	Was <u>not</u> observed for this case study.
<i>Context</i>	1. The new business model concept may develop both within as well as outside of the existing strategic context	Applies to this case study. (cf. description of T2, T3, T8, and S4)
	2. The organizational context needs to be tailored to the relationship of units pursuing the old and new business model respectively.	Applies to this case study. (cf. description of D2, T5, and T8)
	3. Shocks in the external context may impede business model innovation efforts.	Was <u>not</u> observed for this case study.

(Table continued on next page)

<i>Outcomes</i>	1. A new business model innovation concept is designed around one or more of Amit & Zott's design themes (i.e., novelty, complementarities, lock-in, efficiency).	Applies to this case study. (cf. description of T5, T8, and T11)
	2. Timelines and outcome criteria for a business model innovation project shift after an initial grace period.	Applies to this case study. (cf. description of T6 and T8)
	3. The wish to allocate resources to their most profitable use threatens business model innovation projects early in their lifetime.	Applies to this case study. (cf. description of D2)
	4. Efforts to develop and implement a new business model need a new set of key metrics for the initiative to thrive.	Was <u>not</u> observed for this case study.

Note. For the sources of the expectations see Table 22 on page 112. Source: Own representation

The overview in Table 49 concludes the discussion of the aspects of the case study that address the first research question. While the discussion of the process model identified the three generative mechanisms driving business model innovation, chapters B6.2 and B6.3 highlight two particular aspects related to the sensemaking and dialectical mechanism.

6.2 Discussion of the cognitive aspects

The discussion of the cognitive aspects relates back to the second research question, which addresses our lack of understanding of how cognitive aspects of a business model (Aspara, et al., 2012; Tikkanen, et al., 2005) affect business model innovation in established organizations that choose to introduce a new business model alongside their existing one:

2. How does management cognition matter to the business model innovation process?

In particular, this subchapter discusses the role of mental models in managerial sensemaking and how they relate to business model innovation. The subchapter ends with a discussion of limitations.

Over the course of the case study, managers in the analyzed incumbent organization used different variables (Huber & Lewis, 2010) and frames (Szulanski, et al., 2004) to make sense of the disruptive new competition⁹² in ways that guided organizational actors' behavior (Weick, et al., 2005). Table 50 (p. 250) summarizes these variables and the "Opportunity / Threat" framing for the first four instances of sensemak-

⁹² Szulanski and colleagues (2004) reviewed the labels attached to such triggers for sensemaking: They include „breakpoints“, „shocks“, „strategic inflection points“, „perturbations“, and „discontinuities“ (Szulanski, et al., 2004, p. 79).

ing (cf. Figure 26, p. 169), which span the initial market entry of free newspaper competition to the introduction of a first new business model by the incumbent publishing organization.

In the first sensemaking cycle (S1), the occurrence of new entrants is neither framed as a threat nor an opportunity (Manager6, 2011). With reference to the incumbent organization's business definition and self-concept (Hartmeier & Seibt, 2006), managers argued that the newspaper (i.e., the materialization of the value proposition) produced by the new entrants underperformed on variables that typically mattered to the newspaper business (e.g., the quality and substance of newspaper content) (Manager6, 2011; Manager8, 2012). Moreover, they rejected the idea of giving away journalistic content for free because it would have devalued the work of the incumbent organization from the perspective of organizational actors (Journalist2, 2012; Manager8, 2012). In consequence, the incumbent organization showed little to no response (Haller, 2009a). In the subsequent sensemaking cycle (S2), the framing changed. Potential financial gains prompted managers to frame the free newspaper business model as an opportunity they were considering exploiting (Manager7, 2012). At the same time, the reference to underperformance in variables that typically mattered to paid-for newspaper production persisted (Weissberg, 2004). However, while the emphasis in S1 had been on the underperformance of free dailies as newspapers ("the same, but worse"), the sense made in S2 emphasized underperformance and the difference of free dailies compared to traditional newspapers ("different and worse") (Persönlich, 2004j; Weissberg, 2004). Later, in the third sensemaking cycle (S3), the free newspaper was simultaneously framed as a financial opportunity and a potential threat to incumbent newspapers (Editor-in-Chief1, 2011; Manager7, 2012). The variables mentioned at that time related primarily to value capture and the financial performance of the business model and led to a closer assessment of the free newspaper business model.

Finally, the paradoxical framing as opportunity and threat (Gilbert, 2006) persisted in the final sensemaking cycle (S4). The variables considered in assessing the new entrants opened up to include a diverse set of variables representing a sophisticated mental model (Huber & Lewis, 2010) of the ways in which free newspapers create and capture value (see Table 38, Table 39, and Table 40 on p. 193 et sqq.). Together, they guided the incumbent organization's response (Weick, et al., 2005), which was to innovate by developing a new evening free newspaper business model.

Table 50: Variables to assess free newspapers in sensemaking

Sensemaking	Variables to assess free newspaper entrants	Opportunity/ Threat
S1 (06/1999)	<ul style="list-style-type: none"> ▪ Competition “free newspapers were not considered serious competition” (Manager6, 2011) ▪ Business definition “Our business was always classical journalism. This is why we did not take free newspapers seriously – in a journalistic sense – when the first appeared” (Hartmeier & Seibt, 2006) ▪ Quality Free newspapers underperformed on criteria that typically mattered to newspaper production such as the quality of content (Manager6, 2011; Manager8, 2012) ▪ Relationship between value creation and capture Organizational actors argued that content produced by journalists is a valuable product that should not be given away for free (Journalist2, 2012; Manager8, 2012). 	<ul style="list-style-type: none"> ▪ Neither threat nor opportunity
S2 (01/2003)	<ul style="list-style-type: none"> ▪ Economic viability “[RINGIER management] realized that a free newspaper could be a working business model – albeit a risky one. Free newspapers are based on a single revenues stream.” (Manager7, 2012). ▪ Reader acceptance Readers enjoyed “journalistic fast food” at times and in certain situations such as their morning commute to work on public transport (Manager7, 2012). ▪ Quality “Free newspapers promise readers something they cannot deliver: wholehearted journalism” (Persönlich, 2004c). “[free newspapers] snip the endless supply of newswire messages and arrange these ‘appetizers’ in neat little boxes, garnished with a few stories researched on their own: Voilà, the hors d’oeuvre are ready” (Weissberg, 2004). ▪ Performance measures Free and paid-for newspapers are different and cannot be compared along established performance measures (i.e., readership and circulation figures) surveyed by the industry’s audit bureau (Persönlich, 2004j; Weissberg, 2004). ▪ Relationship between value creation and capture “Only good journalism makes a good newspaper possible. And that comes at a price. Diligent research, a comprehensible language, exclusive stories, intelligent comments and striking pictures: These things are not for free. This is why BLICK cannot be for free [...] BLICK requires the reader’s financial contribution” (Weissberg, 2004). 	<ul style="list-style-type: none"> ▪ Opportunity
S3 (03/2005)	<ul style="list-style-type: none"> ▪ Economic viability and performance issues The decreasing performance of and outlook for BLICK in the advertising and readership market as compared to 20 MINUTEN regenerated the interest in free newspapers from an economic perspective (Editor-in-Chief1, 2011; Manager7, 2012). 	<ul style="list-style-type: none"> ▪ Opportunity and Threat
S4 (09/2005 – 07/2006)	<ul style="list-style-type: none"> ▪ Economic viability “RINGIER considers the market for free newspapers a sustainably attractive market.” (Ringier, 2006a) ▪ “Business model” Cf. analyzed business model configurations based on teleological cycles in stage 2 (e.g., Table 38, Table 39, and Table 40, pp. 193). ▪ Competition “We experienced something that can happen to you in any industry and any company. We have been doing for too long what we have been good at.” (Hartmeier & Seibt, 2006) 	<ul style="list-style-type: none"> ▪ Opportunity and Threat

Source: Own representation based on sources indicated in table.

In conclusion, the variables and frames that managers activated and applied to make sense of the behavior of new market entrants determined the incumbent organization's behavioral response toward the new business model. In principle, this is no new insight. It has been a core assumption of behavioral organization researchers since the late 1950s that an organization's response to stimuli is contingent on the mental models of the organizational actors (Porac, et al., 2002). However, where this study suggests a contribution to the business model literature is in the *variables* that managers activated to assess the market entry of a new business model.

According to Huber and Lewis (2010), variables are the constitutive elements of mental models related to an organizational actor's factual knowledge and beliefs:

„*Mental model* refers to a person's mental representation of a system and how it works [...]. This definition takes into account (1) the variables included in the system, (2) the properties and states of those variables, and (3) the causal or other relationships among those variables“ (Huber & Lewis, 2010, p. 7).

A *frame*, in contrast, is a structure “of belief, perception, and appreciation” (Gilbert, 2006, p. 151) associated with a specific situation. Szulanski and colleagues (2004) highlight “that alternative frames could be used to represent in different ways what is essentially the same situation” (p. 80) – for example, framing the market entry of a new organization as either “threat” or “opportunity”.

As a concept, the business model exists as both a *material entity* in the form of the tangible elements of an organization's value creation and value capture (e.g., products and customer groups, productive resources, and a supplier network) and a *cognitive representation* (i.e., a mental model) of how the focal organization creates and captures value (Doz & Kosonen, 2010; Tikkanen, et al., 2005). These mental models of value creation and capture, however, should not be mistaken for the business model ontologies discussed in academia (cf. chapter A2.1.2). In practice, associations with the term “business model” seem fuzzy and the term does not evoke a clear set of constitutive elements⁹³ (Baden-Fuller & Morgan, 2010; George & Bock, 2010). This was also the case in the incumbent organization studied here.

Instead, a micro theory of market relationships and market making (Porac, et al., 2002) suggest that organizational actors assess value creation and value capture in terms of the cognitive structures that form an actor's industry belief system (Aspara, et

⁹³ However, the diffusion of ontologies such as Osterwalder and Pigneur's (2009) business model canvas or other frameworks taught in MBA and executive education might change this over time.

al., 2012; Porac, et al., 2002; Tikkanen, et al., 2005). Porac and colleagues (2002) conceived these belief systems on the basis of four types of beliefs, which Tikkanen and colleagues (2005) and Aspara and colleagues (2011, 2012) transferred to business model research: product ontology, boundary beliefs, industry recipes, and reputational rankings (cf. Table 51).

Table 51: Elements of an industry belief system

Belief	Description
Product ontology	<ul style="list-style-type: none"> ▪ A cognitive representation that links attributes, usage conditions, and buyer characteristics into a definition of a product or service that is exchanged in market transitions.
Boundary beliefs	<ul style="list-style-type: none"> ▪ Mental models based on product ontologies that delimit which organizations are participants in the same market, and are thus competitors, and which are not.
Industry recipe	<ul style="list-style-type: none"> ▪ Industry-specific logics that constitute rule systems for reasoning and justifying action vis-à-vis competitors, suppliers, customers, the capital markets, and regulatory agencies.
Reputational ranking	<ul style="list-style-type: none"> ▪ Assessment of the relative success of firms in operationalizing an industry recipe providing information to market participants, and to the inter-organizational community at large about an organization's competencies and reliability.

Source: Based on Porac, Ventresca, and Mishina (2002).

The literature on strategic renewal and business model put different weights on the role of frames and variables in understanding the role of managerial cognition with regard to an incumbent organization's ability to respond to disruptive events. The strategy literature on discontinuous change has focused on the existential role of threat and opportunity framing in addressing disruptions such as the emergence of a new business model in an existing industry from an incumbent organization's perspective (Gilbert, 2005, 2006). Framing a disruptive occurrence simultaneously as a threat and an opportunity allows mobilizing resources (cf. Danneels, 2011) as well as breaking up rigid routines (Gilbert, 2005). In contrast, the business model literature argues that comprehending the new competition from a business model perspective (i.e., the systemic interplay of the elements that constitute value creation and value capture) is pivotal to understanding the implications of such disruptions and to defining an adequate response (Christensen & Raynor, 2003; Markides, 2006; Sosna, et al., 2010; Teece, 2007, 2010). The case of free newspapers is a prime example: When assessed on the basis of a newspaper product-ontology, free newspapers underperform on the dimensions of the variables that matter in the readership market (e.g., reader information and education, contribution to the democratic discourse in society, convenient home delivery) (Jordan & Chisholm, 2005). However, free newspapers have a different value proposition (i.e., distraction, entertainment, and brief information on the commute to

and from work) around which their entire business model is built (Bakker, 2002a; Jordan & Chisholm, 2005). In the case study, the incumbent organization's management realized this by integrating more variables into their mental model of free newspapers (i.e., the newspaper's editorial concept, organization, print, distribution, brand, and advertising offers) (e.g., Ringier, 2006a).

Although the case study does not allow determining a definite causal relationship between framing and the variables activated in sensemaking (cf. Table 50, p. 250) it tentatively offers two conclusions: First, a more sophisticated appraisal of free newspapers in sensemaking co-occurred with a simultaneous framing of free newspapers as threats and opportunities. Secondly, at the time when free newspapers were primarily assessed on the basis of a newspaper product ontology, free newspapers were perceived as neither threat nor opportunity. Proposition 5 summarizes this discussion.

Proposition 5

Managerial cognition enables business model innovation in an incumbent context by developing a sophisticated mental model that integrates the new ways value is created and captured as well as by simultaneously framing the new business model as threat and opportunity.

The contribution of this study with regard to the role of managerial cognition is twofold: First, it illustrates a theoretical point made by Tikkanen and colleagues (2005) in an empirical case⁹⁴; i.e., that the variables used in mental models to make sense of an industry disruption (e.g., new business model) are drawn from the constituents of organizational actors' industry belief systems (Porac, et al., 2002). Second, it suggests that, for the case site studied, business model innovation was enabled by both a sophisticated mental model of the new business model and simultaneously framing the new ways of creating and capturing value as both a threat and an opportunity.

Three limitations apply to this discussion. Points one and two relate to the concerns raised in chapter B6.1 regarding the limited retrospective accessibility of the managerial sensemaking and external validity based on the selected case design transfer to the discussion of managerial cognition. The third limitation relates to the selected industry context as a contingency. A distinct feature of the newspaper publishing business evident in the case study is the professional separation of responsibilities for

⁹⁴ Aspara and colleagues (2011, 2012) researched these belief systems empirically for the case of NOKIA corporation. However, their focus was on a different organizational level ("corporate business model") and focused more on the higher order beliefs (i.e., reputational rankings, industry recipes, and boundary beliefs) and corporate transformation (Aspara, et al., 2011, 2012).

value creation, which is the domain of journalists and editors, and value capture, which is the domain of publishing managers. This separation into two different logics (Thornton, Jones, & Kury, 2005) pertaining to editorial and commercial matters (Journalist2, 2012; Manager1, 2011; Manager7, 2012; Manager8, 2012) might have influenced the weight and diversity of variables activated and applied to make sense of the free newspaper business model. This might suggest that incumbent organizations with actors in charge of managing value creation and capture in a more integrated way assess competition by a new business model on the basis of more differentiated mental models right from the start (cf. Szulanski, et al., 2004).

In conclusion, the discussion of mental models and framing in business model innovation elaborates on an essential aspect of the sensemaking mechanism that represents an integral part of the process model presented in the previous chapter. The next chapter highlights another aspect that pertains to the dialectical mechanism, the relationship of the old and new business model.

6.3 Discussion of the connection between the old and new

The discussion of the relationship between the incumbent organization's old and new business model relates back to the third research question, which addresses the puzzle of what drives the relationship between the old and the new over time (Hill & Birkinshaw, 2008; Jansen, et al., 2009; Raisch & Birkinshaw, 2008) and thus affects business model innovation in established organization:

3. How do incumbents accommodate the existing and the new business model over the course of the innovation process?

In particular, this subchapter discusses how organizational actors' learning about the new business model and how the accumulation of resources by the unit operating the new business model affect the selected relationship configuration that accommodated the existing and new business model over time. The subchapter concludes with a discussion of limitations.

In abstract terms, there are four different strategies to deal with the conflicting demands, three of which try to resolve conflict and one which accepts it (Poole & Van de Ven, 1989; W. K. Smith & Lewis, 2011): The first solution, *spatial separation*, suggests resolving conflict by housing the existing and new business model in different organizational units (Christensen & Raynor, 2003; Govindarajan & Trimble, 2011; W. K. Smith & Lewis, 2011). The second solution, *temporal separation*, suggests address-

ing conflicting demands by alternating the emphasis on the new and existing business over time (W. K. Smith & Lewis, 2011). The third solution, *synthesis*, seeks to resolve conflicting demands of the old and new business model by identifying a new configuration that integrates the two (Markides & Charitou, 2004; W. K. Smith & Lewis, 2011). Finally, the fourth solution, *acceptance*, suggests coping with conflicting demands in a way that appreciates and accepts the differences between the two without trying to reconcile them (Poole & Van de Ven, 1989; W. K. Smith, et al., 2010). All four strategies are based on the paradoxical “both/and” premise (W. K. Smith, et al., 2010) “that overall organizational success depends on exploring [new business models] *and* exploiting [existing business models] simultaneously” (W. K. Smith & Lewis, 2011, pp. 388, emphasis added).

Table 52 (p. 256) and Table 53 (p. 257) summarize, first, how the incumbent organization studied in the case study (cf. chapter B5.2) designed its new business model for separation and integration and, second, the conflict potential and potential synergies that were associated with each configuration over time.

The conceptual draft, QUICKBLICK, which resulted in January 2006 from the interaction of managerial sensemaking and the innovation project team’s teleological activity, was optimized to leverage RINGIER’s incumbent advantage (Iansiti, et al., 2003). The QUICKBLICK business model suggested integrating both editorial and publishing activities in joint organizational structures and coordinating value creation processes to keep the innovation project’s investment requirements low (Ringier, 2006a). For example, it was suggested that RINGIER’s existing editorial teams serve the free daily as an in-house news wire and thus leverage journalistic content and draw on scale economies. Despite this organizational integration, the concept suggested that the sub-branded (or endorsed) newspaper (cf. Table 52) should develop a separate identity and target a different core readership than the incumbent organization’s flagship newspaper (Ringier, 2006a).

Table 52: Integration and separation of the new business model

Business Model	Integration	Separation
QUICK BLICK (concept only)	<ul style="list-style-type: none"> ▪ Ad display sales function ▪ Advertising pool ▪ Shared branding (sub-brand or endorsed brand QUICK by BLICK) ▪ Shared newsroom ▪ Coordinated value creation (other BLICK titles supply editorial content) ▪ Circulation audit (WEMF) 	<ul style="list-style-type: none"> ▪ Separate identity ▪ Different target readership
HEUTE	<ul style="list-style-type: none"> ▪ Ad display sales function ▪ Advertising pool (KOMBIATION) ▪ Editorial coordination ▪ Circulation audit (WEMF) ▪ Reporting to same senior manager (head of newspaper division) 	<ul style="list-style-type: none"> ▪ Separate newsroom ▪ Start-up culture and entrepreneurial spirit ▪ Separate brand and identity ▪ Different (internal) outcome and performance measures ▪ Business-model specific value creation routines (lean processes, rotating functions and responsibilities, etc.) ▪ Flexibility to variegate and experiment with realization of value proposition ▪ Separate supplier contracts, cost rates, and wage structure ▪ Different target readership
BLICK AM ABEND (pre newsroom)	<ul style="list-style-type: none"> ▪ Ad display sales function ▪ Advertising pool (DOPPELPAK) ▪ Shared branding (sub-brand) ▪ Circulation audit (WEMF) ▪ Reporting to same senior manager (head of newspaper division) ▪ Dedicated manager for editorial and strategic matters across newspaper titles (editorial head of newspapers) 	<ul style="list-style-type: none"> ▪ Separate newsroom ▪ Start-up culture ▪ Separate identity ▪ Business-model specific value creation routines (lean processes, rotating functions and responsibilities, etc.) ▪ Separate supplier contracts, cost rates, and wage structure ▪ Different target readership
BLICK AM ABEND (in newsroom)	<ul style="list-style-type: none"> ▪ Ad display sales function ▪ Advertising pool (POWERDUO) ▪ Shared branding (sub-brand) ▪ Shared newsroom ▪ Coordinated value creation (editorial, production, etc.) ▪ Circulation audit (WEMF) ▪ Reporting to same senior managers (head of newspaper division and CEO) 	<ul style="list-style-type: none"> ▪ Separate identity ▪ Different target readership ▪ Business-model specific composition of editorial content.

Source: Benini (2009), Editor-in-Chief2 (2011), Editor-in-Chief3 (2011), Editor-in-Chief1 (2011), Journalist1 (2011), Manager1(2011), Manager8 (2012), Persönlich (2006i, 2006j, 2009e, 2009g, 2009k, 2010b, 2010c, 2010d, 2010e, 2010f, 2011d), Ringier (2006a, 2007a, 2008a, 2009a), and Stadler (2006).

Table 53: Conflict potential and potential synergies

Business Model	Conflict potential		Potential synergies	
QUICK BLICK (concept only)	<ul style="list-style-type: none"> ▪ Cannibalization of readers ▪ Cannibalization of content ▪ Dilution of brand identity 	[A/-] [A/-] [A/-]	<ul style="list-style-type: none"> ▪ Unprecedented reach with advertising pool ▪ Leverage existing editorial resources/competences 	[A/-] [A/-]
HEUTE	<ul style="list-style-type: none"> ▪ Cannibalization of readers ▪ Cannibalization of content 	[A/I] [A/N]	<ul style="list-style-type: none"> ▪ Unprecedented reach with advertising pool (KOMBI-NATION) ▪ Leverage existing distribution knowhow ▪ Acquire regionalization know-how (ad display sales) ▪ Acquire regionalization know-how (editorial content) 	[A/N] [A/I] [A/N] [A/R]
BLICK AM ABEND (pre newsroom)	<ul style="list-style-type: none"> ▪ Cannibalization of content 	[A/N]	<ul style="list-style-type: none"> ▪ Unprecedented reach with advertising pool (DOPPELPAK) 	[A/R]
BLICK AM ABEND (in newsroom)	<ul style="list-style-type: none"> ▪ Cannibalization of content 	[A/N]	<ul style="list-style-type: none"> ▪ Unprecedented reach with advertising pool (POWERDUO) ▪ Leverage editorial resources/competences across BLICK-branded titles 	[A/R] [A/R]

Note: The assessment reported in this table is based on interviewee perception and conflicts and synergies reported in the data – not the researcher’s sensemaking: [A] denotes “anticipated”; [I] denotes “indeterminate effect”; [N] denotes “not realized”; [R] denotes “realized”. Source: Based on Ringier (2006a, 2007a, 2008a, 2009a), (Schantin, 2010), Stadler (2006), Persönlich (2006i, 2006j), Editor-in-Chief3 (2011), Editor-in-Chief1 (2011), Journalist1 (2011), Manager1(2011), and Manager8 (2012).

The free newspaper business model that was launched on the market in May 2006 did prioritize separation over integration. HEUTE was launched under a separate brand and accommodated in a spatially distinct newsroom (Ringier, 2006a). The reason for this change in relationship configuration was twofold: On the one hand, it allowed minimizing potential conflict with the existing newspaper business, which opposed the new business model primarily because of a potential cannibalization of editorial content and readership (Consultant1, 2011; Editor-in-Chief1, 2011; Ringier, 2005, 2006a). On the other hand, focus groups with the potential, young target readership rejected the BLICK-related branding, which seemed to support the internal assumption that the new newspaper title might dilute the flagship newspaper’s brand identity (Editor-in-Chief1, 2011; Ringier, 2006a). The separation allowed the unit in pursuit of the new business model to achieve five ends: it developed a start-up culture in a corporate setting (Editor-in-Chief1, 2011; Editor-in-Chief3, 2011; Journalist1, 2011), project specific performance measures (Weissberg, 2006n), business-model-specific value creation routines optimized for efficiency (Consultant1, 2011; Editor-in-Chief1, 2011; Ringier, 2006a), the freedom to experiment with the actualization of the value proposi-

tion (cf. Table 42), and different wage structures, supplier contract, and cost rates (Consultant1, 2011; Editor-in-Chief1, 2011; Ringier, 2006a). All of these ends are associated with higher innovation performance of some sort (e.g., Christensen & Raynor, 2003; Govindarajan & Trimble, 2005b; Markides, 2008).

Despite the focus on and benefits of spatial separation, there were aspects of targeted integration in HEUTE's business model that justified the new business model's association with the incumbent organization (cf. Tushman, et al., 2010; Westerman, et al., 2006). Structurally, the sales function of the new and existing business model were integrated to sell the combined advertising pool, KOMBINATION, with an unprecedented reach (Ringier, 2006a). Moreover, to minimize conflict over content, the HEUTE editor-in-chief participated in the incumbent newspaper's editorial meetings (Editor-in-Chief1, 2011). The existing and new business model reported to the same senior manager who headed the newspaper division and assessed them on the basis of the same key metrics (Editor-in-Chief1, 2011; Manager3, 2011). Furthermore, the new unit hoped to transfer existing knowledge in distribution stemming from the operation of newspaper vending machines (Manager2, 2011; Meier & Häussler, 2010b) for the design of the network of free newspaper distribution racks. Finally, the new unit was intended to build competences with regard to regionalization in terms of ad display sales and editorial content, which would potentially benefit the existing business model in the future (Ringier, 2006a). Most of these choices were based on management and the project team's best guesses because the assumption on which they were based could not be inferred from role models or tested by means of experiments without an actual market launch of the new business model (Consultant1, 2011; Editor-in-Chief1, 2011; Ringier, 2006a; Weissberg, 2006f).

By late 2007, the incumbent organization had learned about the materialization of assumed conflicts and synergies regarding the relationship of the old and new business model (Editor-in-Chief1, 2011; Manager1, 2011; Manager3, 2011; Manager6, 2011; Ringier, 2007a). While the new business model allowed acquiring some competences with regard to the regionalization of a newspaper, the cannibalization of content and the synergies in advertising sales did not materialize as expected (Manager3, 2011; Manager8, 2012; Ringier, 2007a). Cannibalization of readership was perceived as marginal to nonexistent, and no conclusive evidence suggested a direct competition for readership between BLICK and HEUTE (Consultant1, 2011; Manager3, 2011; Manager8, 2012; Ringier, 2007a). Moreover, it is unknown to what extent the organization was able to leverage existing distribution knowhow. Finally, besides learning,

the new unit also built up productive resources in the form of new editorial routines and young journalists/editors trained on the job to operate a lean and efficient newspaper business model (Editor-in-Chief1, 2011; Manager6, 2011). In addition, it achieved unprecedented access⁹⁵ to a young readership demographic attractive to advertising clients (Editor-in-Chief1, 2011; Manager6, 2011).

The BLICK AM ABEND free daily, introduced in June 2008, addressed HEUTE's deficits with regard to synergies in ad sales and on the advertising market. While the editorial part of value creation was still organizationally separated, the incumbent organization introduced the new materialization of a modified value proposition under a sub-brand of the flagship newspaper (Ringier, 2008a) and further integrated sales of the joint advertising pool (DOPPELPAK). In addition, the newspaper division had a manager in charge of editorial and strategic development across all titles in the newspaper division. Furthermore, brand dilution was no longer an issue since the editorial head of newspapers had introduced a new consistent rationale to legitimize the free newspaper's relevance as part of the overall BLICK brand family and media platform (Manager6, 2011; Manager8, 2012).

The final business model configuration of BLICK AM ABEND, introduced with the start of the newsroom operations in March 2010, represents an even tighter integration of the old and new business model than the previous one. The new business model configuration built on the previous tighter integration of the value proposition on the advertising market (Manager6, 2011; Manager8, 2012; Ringier, 2008a). Value creation was integrated into a single organizational unit sharing central newsroom and coordinated processes and resources in the creation of editorial content and newspaper production (Editor-in-Chief2, 2011; Ringier, 2009a; Schantin, 2010). BLICK AM ABEND as part of BLICK media platform produced from the single newsroom, synthesized the previously independent business models of paid-for and free newspapers in a new way. Conflicting demands persisted with regard to editorial processes drawing on a joint pool of resources; however, these were embraced and addressed by defining tenets of coordination and collaboration in the form of "twelve newsroom rules" (Schantin, 2010, p. 14).

The path that RINGIER chose for the separation and integration of its free and paid-for newspaper business model matches the "phased integration" type in Markides and Charitou's (2004) contingency framework for competing with dual business models.

⁹⁵ Unprecedented is to be understood from the incumbent organization's perspective. 20 MINUTEN had achieved a higher penetration of this particular target group by that time (WAN, 1999-2009).

The authors suggest a phased integration for settings “when the new business model serves a market that is strategically similar⁹⁶ to the existing business but the two ways of competing face serious conflicts⁹⁷ between them” (Markides & Charitou, 2004, p. 30). While their framework provides valuable decision support, an open question remains: What drives the timing of phased strategies – i.e., when and why incumbent organizations integrate or separate their business models.

The literature on organizational ambidexterity, which draws on research on organizational designs, learning, and adaptation, strategic management, and technological innovation (Raisch & Birkinshaw, 2008), also lacks a definitive answer to the ways in which incumbent “organizations adapt and develop ambidextrous structures, contexts, and leadership patterns over time” (Raisch & Birkinshaw, 2008, p. 402). There is a gap in the literature with regard to the question of how incumbent organizations manage to exploit and incrementally optimize their existing business model, which still generates profits, while exploring new business models (Chesbrough, 2010; Markides & Oyon, 2010; W. K. Smith, et al., 2010; Sosna, et al., 2010) in terms of structures, contexts, and leadership over time (Gilbert, 2006; Hill & Birkinshaw, 2008; Jansen, et al., 2009; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; Taylor & Helfat, 2009; Tushman, et al., 2010; Westerman, et al., 2006).

The case analysis offers some suggestive and exploratory evidence of two mechanisms that may help to address this gap: asset stock accumulation and learning about the new business model and its relationship with the existing business.

It is part of a new business model’s incumbent advantage that it may draw on the existing organization’s resources (e.g., funding, staff, and production facilities) to start the new business (Govindarajan & Trimble, 2005a; Iansiti, et al., 2003). However, the ambidexterity literature disagrees over whether slack resources are a necessary prerequisite to ambidextrous behavior (Raisch & Birkinshaw, 2008) or whether ample resource endowment is driving organizations away from ambidextrous designs (Tushman, et al., 2010). Nonetheless, over time, the unit operating the new business model accumulates tangible and intangible resources (Dierickx & Cool, 1989), some of which will exhibit the characteristics of strategic assets (Barney, 1991; Markides & Williamson, 1996). The existing business model might benefit from these assets as the

⁹⁶ Managerial perception of strategic similarity was measured based on an eight-item five-point Likert scale for three types of assets (i.e., customer, channel, and process assets) (Markides & Charitou, 2004).

⁹⁷ Managerial perception of the level of conflict between the old and new business model was assessed for a list of nine potential risk types on the basis of a five-point Likert scale (Markides & Charitou, 2004).

new business model matures (Govindarajan & Trimble, 2005b; Markides & Charitou, 2004). In the case studied, the unit operating the new business model built up competences with regard to the regionalization of a newspaper, productive resources in the form of new editorial routines and young journalists/editors trained on the job to operate a lean and efficient newspaper business model, and unprecedented access to a young readership demographic attractive to advertising clients (Editor-in-Chief1, 2011; Manager6, 2011; Ringier, 2007a). These resources influenced the way in which the incumbent organization accommodated the old and new business model over time: For example, young journalists and editors of the free newspaper switched over to the newsroom of the incumbent newspaper and rejuvenated its staff (e.g., Editor-in-Chief1, 2011; Persönlich, 2008e; Weissberg, 2007b). Moreover, the access to a young readership demographic was an essential pillar in the argumentation to continuously commit to free newspapers and gradually integrate the new and old business model (Manager6, 2011; Ringier, 2008a). Proposition 6 summarizes the suggested role of asset stock accumulation:

Proposition 6

The accumulation of strategic assets by the unit operating the new business model that are of use to the existing business drives the level of integration between conflicting business models operating in strategically related markets over time.

The second aspect that drives the integration of conflicting business models is organizational actors' learning about the new business model and its relationship with the existing business. The unit that develops and introduces the new business model learns about the development of its target market, customer needs, the business model's success factors and the systemic interaction of business model elements, etc. (McGrath, 2010; Sosna, et al., 2010). As part of this process, the new unit may wish to modify the links with the existing business model to make better use of the incumbent organization's existing resources and capabilities. At the same time, the unit in pursuit of the old business model learns about the effects of the new business model on its own business, for example, to what extent the new business actually cannibalizes its market share or the benefits of cooperation, either of might be higher or lower than expected. Learning may therefore increase as well as decrease the tension between the existing and the new business model and trigger motivation to change previously established levels of integration and separation. In the case studied, organizational actors learned considerably about the materialization of assumed conflicts and synergies regarding the relationship of the old and new business model (Editor-in-Chief1, 2011;

Manager1, 2011; Manager3, 2011; Manager6, 2011; Ringier, 2007a). In particular, sources of conflict such as cannibalization of content and readership were perceived as marginal to nonexistent (Consultant1, 2011; Manager3, 2011; Manager8, 2012; Ringier, 2007a). In addition, publishing managers selling the advertising pool learned that advertising clients were not accepting the joint offering despite an attractive penetration across different demographic reader groups (Manager3, 2011; Manager8, 2012; Ringier, 2007a). Both the realization that conflicts were not as severe as anticipated, despite the strategic relatedness of markets (Markides & Charitou, 2004), and the realization that synergies between the two newspapers on the advertising market required a different type of relationship eventually led to a closer integration of the two business models (Manager6, 2011; Ringier, 2007a, 2008a; Schantin, 2010). This type of learning about the relationship of the existing and the new business model maybe part of the micro-foundations of dynamic capabilities that allow seizing opportunities and re-/aligning assets (O'Reilly & Tushman, 2008; Teece, 2007). Proposition 7 summarizes the suggested role of learning:

Proposition 7

Learning about the effects of the new business model as well as about the actualization of anticipated synergies and conflicts drives the level of integration between conflicting business models operating in strategically related markets over time.

The contribution of this study with regard to the ways in which incumbent organizations accommodate a new and existing business model lies in the identification of two mechanisms. Both the accumulation of strategic assets by the unit operating the new business model that are of use to the existing business and learning about the effects of the new business model as well as about the actualization of anticipated synergies and conflicts help to explain the selected level of integration between the two business models. This suggestive and explorative insight on the basis of a case study with temporal and spatial variation represents a small contribution to filling a gap in the ambidexterity and business model literature (e.g., Hill & Birkinshaw, 2008; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; W. K. Smith, et al., 2010; Tushman, et al., 2010).

Three particular limitations apply to the discussion in this subchapter. The first point relates to the issue of external validity based on the selected case study design raised in chapter B6.1. The two mechanisms inferred are based on a single instance of phased integration (Markides & Charitou, 2004). There may well be other mechanisms of importance and their respective weight may depend on per-case contingencies. A

second potential limitation relates to the reliance on the managers' recall of the relative assessment of actualized conflicts and synergies (Heise, 1989). Even though not all interviewee statements were backed up by secondary data and internal documents for verification, they still represent interesting insights because the managers' interpretations of reality serve as a mediator between external stimuli (e.g., performance data) and managerial action (Porac, et al., 2002). Finally, the data collected and type of analysis allowed portraying learning only as a capability of individual organizational actors. Previous studies have, however, emphasized the importance of multi-level perspective on learning for organizational ambidexterity (e.g., Andriopoulos & Lewis, 2009; Raisch, et al., 2009).

The discussion of the importance of the strategic assets accumulation and organizational actors' learning about the new business model and its relationship with the existing business concludes the discussion of the case analysis and the empirical section of this dissertation. The remaining chapters summarize the case study's main findings (chapter C7), point to implications for the academic literature (chapter C8.1) as well as practitioners (chapter C8.2), and discuss the study's limitations and avenues for further research (chapter C8.3).

C Summary of findings and implications

7 Summary of findings

The key findings of the study presented in this dissertation concern three areas of the business model innovation process in an incumbent organization: First, the generative mechanisms that drive this particular innovation process, second, the role of organizational actors' mental models and cognitive frames, and third, asset stock accumulation and learning as drivers of integration between the existing and new business model.

(1) *Generative mechanisms*

The discussion of generative mechanism relates to the dissertation's first research question (cf. Table 54, p. 265). The case analysis suggests that three interlocking generative mechanisms drive the business model innovation process in incumbent organizations. The *sensemaking mechanism* is preoccupied with the meaning of the new in terms of different dimensions pertaining to aspects of value creation and capture (Porac, et al., 2011; Porac, et al., 2002; Tikkanen, et al., 2005) as well as the integration of the meaning in a "a locally plausible story" (Weick, et al., 2005, p. 414) that legitimizes the new business model and guides action (Drori & Honig, 2013; Weick, 1995; Weick, et al., 2005). The *dialectical mechanism* is related to handling tension and conflict potential between the existing and the new business model in terms of finding a workable balance (cf. Markides & Charitou, 2004) that pays attention to issues of identity (Bouchikhi & Kimberly, 2003; Teece, 2010; Tripsas, 2009), competition for resources (Bucherer, et al., 2012; Danneels, 2011; McGrath, 2010; Tripsas & Gavetti, 2000; Zott & Amit, 2010), and cannibalization in the market (Teece, 2010). Finally, the *teleological mechanism* concerns all the organizational level innovation work involved in innovating the business model configuration in an incumbent setting by means such as generating new ideas, learning about value creation and value capture, and developing and experimenting with new business model configurations before implementing them in the market (e.g., Demil & Lecocq, 2010; McGrath, 2010; Sosna, et al., 2010).

Furthermore, two process model configurations suggest ways in which these models are related in producing business model innovation. A higher-level sensemaking mechanism and lower-level dialectical and teleological mechanisms drive the configuration of the new business model, the legitimacy of innovation efforts, and the terms of the relationship between the incumbent organization's old and new business model.

The main contribution of these two process model configurations is the way they provide us with a more versatile perspective (cf. Pajunen, 2008; Poole, et al., 2000) on business model innovation in an incumbent context.

Table 54: Summary of propositions addressing research question 1

Research question 1	What generative mechanisms drive the process of business model innovation of incumbent organizations?
Proposition 1	Business model innovation at incumbent organizations is driven by three related generative mechanisms: sensemaking, dialectics, and teleology.
Proposition 2	Sensemaking and teleology share a nested relationship in producing business model innovation in an incumbent organization.
Proposition 3a	In producing business model innovation, the dialectical mechanism shares an entangled relationship with the teleological mechanism and an indirect relationship with the sensemaking mechanism.
Proposition 3b	In producing business model innovation, the dialectical mechanism shares a nested relationship with the sensemaking mechanism and an indirect relationship with the teleological mechanism.
Proposition 4a	Process model configuration 1 and 2 each independently explain business model innovation in the context of an incumbent organization.
Proposition 4b	Process model configuration 1 and 2 jointly explain business model innovation in the context of an incumbent organization when combined in consecutive order.

Source: Own representation.

(2) *Mental models and cognitive frames*

The discussion of the role of managerial cognition in business model innovation relates to the dissertation's second research question (cf. Table 55, p. 266). The case analysis demonstrated that the variables and frames that managers activated and applied to make sense of the behavior of new market entrants determined the incumbent organization's behavioral response to the new business model (Porac, et al., 2002). This study suggests a contribution to the business model literature with the variables that managers activated in their mental models (Huber & Lewis, 2010) to assess the market entry of a new business model. Although the case study does not allow determining a definite causal relationship between framing and the variables activated in sensemaking, it tentatively offers two conclusions: First, a more sophisticated appraisal of free newspapers in sensemaking co-occurred with a simultaneous *framing* of free newspapers as threats and opportunities. Secondly, at the time when free newspapers were primarily assessed on the basis of a newspaper product-ontology, free newspapers were perceived as neither threat nor opportunity. On the one hand, this illustrates a theoretical point made by Tikkanen and colleagues (2005) in an empirical case; i.e., that the *variables used in mental models* to make sense of an industry disruption (e.g., new business model) are drawn from the constituents of organizational actors' industry belief systems (Porac, et al., 2002). On the other hand, it suggests that, for the case site

studied, business model innovation was enabled by both a sophisticated mental model of the new business model and simultaneously framing the new ways of creating and capturing value as both a threat and an opportunity.

Table 55: Summary of propositions addressing research question 2

Research question 2	How does management cognition matter to the business model innovation process?
Proposition 5	Managerial cognition enables business model innovation in an incumbent context by developing a sophisticated mental model that integrates the new ways value is created and captured as well as by simultaneously framing the new business model as threat and opportunity.

Source: Own representation.

(3) Drivers of phased integration

The discussion of phased integration in accommodating the existing and new business model within a single organizational context relates to the dissertation's third research question (cf. Table 56, p. 267). The case analysis offers suggestive and exploratory evidence of two mechanisms referring to when and why incumbent organizations integrate or separate their business models. These two questions represent a gap in both Markides and Charitou's (2004) contingency framework and the ambidexterity and business model literature (e.g., Hill & Birkinshaw, 2008; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; W. K. Smith, et al., 2010; Tushman, et al., 2010). First, the *accumulation of strategic assets* (Barney, 1991; Dierickx & Cool, 1989; Markides & Williamson, 1996) by the unit operating the new business model that benefit the existing business (Govindarajan & Trimble, 2005b; Markides & Charitou, 2004) appears to drive the level of integration between conflicting business models operating in strategically related markets over time. The second aspect that drives the integration of conflicting business models is organizational actors' *learning* about the new business model and its relationship with the existing business. The unit that develops and introduces the new business model learns about the development of its target market, customer needs, the business model's success factors and the systemic interaction of business model elements, etc. (McGrath, 2010; Sosna, et al., 2010). As part of this process, the new unit may wish to modify the links with the existing business model to make better use of the incumbent organization's existing resources and capabilities. At the same time, the unit in pursuit of the old business model learns about the effects of the new business model on its own business, for example, to what extent the new business actually cannibalizes its market share or the benefits of cooperation, which might be both either higher or lower than expected. Learning may therefore increase as well as decrease the tension between the existing and the new business model and trigger mo-

tivation to change previously established levels of integration and separation between conflicting business models operating in strategically related markets over time.

Table 56: Summary of propositions addressing research question 3

Research question 3	How do incumbents accommodate the existing and the new business model over the course of the innovation process?
Proposition 6	The accumulation of strategic assets by the unit operating the new business model that are of use to the existing business drives the level of integration between conflicting business models operating in strategically related markets over time.
Proposition 7	Learning about the effects of the new business model as well as about the actualization of anticipated synergies and conflicts drives the level of integration between conflicting business models operating in strategically related markets over time.

Source: Own representation.

The key findings summarized here serve as a basis for deriving implications for the academic literature and managerial practice, discussed in the following chapter. Finally, the dissertation concludes with a discussion of the study's limitations and suggestions to inspire further research.

8 Implications

8.1 Implications for the literature

The preceding summary of findings (cf. chapter C7) and the discussion of the case analysis (cf. chapter B6) suggest three main implications for the academic literature:

First, this study adds a proposal for two *empirically grounded process model configurations of business model innovation in an incumbent context* to the research program on business models and their innovation in strategy research (cf. Lecocq, et al., 2010). The two configurations are empirically grounded in tracking two linked business model innovation initiatives at a single incumbent case site that was sampled for theoretical reasons (Eisenhardt & Graebner, 2007) over a 12-year period. Drawing on existing process theory (Langley, et al., 2013; Pentland, 1999), this allowed building a more detailed process model that improves upon our understanding of how business model innovation works as a complex social process (Ackroyd, 2009; Pajunen, 2008; Poole, et al., 2000).

While it is important to determine antecedents of business model innovation across a wide population of cases, this study followed a process-research approach (Langley, 2009; Mohr, 1982) to open the proverbial black box and identify the mechanisms that connect antecedents and outcomes along the innovation process (Langley, et al., 2013; Poole, et al., 2000). Hence, the proposed process model configurations, specified in accordance with Poole and Van de Ven's (2004) requirements for multi-mechanism theories, address a research gap with regard to the drivers of business model innovation (cf. Aspara, et al., 2012; Sosna, et al., 2010; Svejenova, et al., 2010; Zott & Amit, 2008). The configurations demonstrate that a set of three interrelated generative mechanisms (i.e., sensemaking, dialectics, and teleology) drive business model innovation in incumbent organizations. While this insight neither disproves nor nullifies existing work on business model innovation, it points to the need to broaden the focus of research on business model innovation beyond the teleological activities that constitute an innovation-funnel logic (cf. Tidd & Bessant, 2009) – particularly in normative models (cf. Bucherer, 2010; Cavalcante, et al., 2011; McGrath, 2010). Furthermore, with regard to existing process models, it represents an adaptation and extension of Cule and Robey's (2004) dual-mechanism process model of organizational transition to the case of incumbent organizations introducing a new business model alongside their existing business. In addition, it provides a starting point for considering possible

performance implications of activities materializing as a result of the interplay of the three identified mechanisms (Abbott, 1990; Reed, 2009).

Second, this study suggests *preliminary insights into the cognitive aspects of business models* that propose a potential addition to the theory on cognition and organizational change (cf. Aspara, et al., 2012; Gilbert, 2006; Tikkanen, et al., 2005). The variables that are activated as parts of mental models (Huber & Lewis, 2010) in making sense of a new and potentially disruptive business model (Weick, et al., 2005) advocate the co-occurrence of a sophisticated appraisal of the new business model in terms of a differentiated mental model and a simultaneous framing of free newspapers as threats and opportunities to overcome incumbent specific rigidities and starting a business model innovation process (Chesbrough, 2010; Gilbert, 2005). While the case analysis does not allow determining a directed causal relationship between framing and the variables activated in sensemaking, it provides suggestive and exploratory evidence that the sophistication of mental models (cf. Szulanski, et al., 2004) that capture value creation and value capture ought to be considered for further theorizing either as an integral part of the influence of competing opportunity and threat frames on unlocking rigidities (Gilbert, 2005, 2006) or as a discrete influence in determining organizational actors' response to disruptive stimuli given touch points with the wider institutional context (Porac, et al., 2011; Porac, et al., 2002; Tikkanen, et al., 2005).

Third, the study contributes a proposal of *two specific mechanisms that address the timing and reason incumbent organizations integrate or separate conflicting business models* operating in strategically related markets. This provides first insights regarding a gap in the business model (Markides & Charitou, 2004; Moingeon & Lehmann-Ortega, 2010; W. K. Smith, et al., 2010) and the ambidexterity literature (cf. Hill & Birkinshaw, 2008; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; Tushman, et al., 2010). Both literature streams have suggested that defining the relationship between exploiting an existing business model and exploring a new one is not a one-off decision. However, to date they have either focused on context, structural, and leadership variables that enable ambidexterity from a cross-sectional perspective (Lavie, Stettner, & Tushman, 2010; Raisch & Birkinshaw, 2008; Raisch, et al., 2009) or the effects of and drivers for organizational shifts toward more ambidextrous design over time (O'Reilly & Tushman, 2011; Tushman, et al., 2010). In contrast, Markides and Charitou's (2004) contingency framework suggests that the relationship configuration between two business models needs to change to maintain organizational ambidexterity. The case analysis adds to this dynamic perspective by suggesting that the accumula-

tion of strategic assets (Barney, 1991; Dierickx & Cool, 1989; Markides & Williamson, 1996) by the unit operating the new business model that benefit the existing business (Govindarajan & Trimble, 2005b; Markides & Charitou, 2004) and organizational actors' learning about the new business model and its relationship with the existing business (McGrath, 2010; Sosna, et al., 2010) drive the level of integration between conflicting business models operating in strategically related markets over time. The type of learning about the relationship of the existing and the new business model may be part of the micro-foundations of dynamic capabilities that allow seizing opportunities and re-/aligning assets (O'Reilly & Tushman, 2008; Teece, 2007).

Finally, on a side note, the *behavior of the five core constructs* (i.e., ideas, people, transactions, context, and outcomes) adopted from the Minnesota Studies (Van de Ven, 1986; Van de Ven & Angle, 2000) largely confirmed the a priori expectations raised in chapter A2.6.2 (also see Table 49, p. 247). Thus, the case analysis does not provide the empirical grounds to challenge a transfer of existing generalized insights about the innovation process, as conceptualized in the Minnesota Studies (Van de Ven, et al., 2008), to business model innovation as a distinct innovation type.

8.2 Implications for practice

This study offers three important implications relevant to the top management of incumbent organizations and organizational actors championing business model innovation initiatives.

The first implication relates to the identified *process model configurations*. The two models raise awareness of the fact that engaging in business model innovation is a more complex matter than deciding whether to respond to a new competitor or market disruption (Burgelman & Grove, 2007b; Chesbrough, 2010; Markides, 2008) and/or starting an innovation funnel (Tidd & Bessant, 2009). This study has identified three related mechanisms, organized in the two process model configurations, that drive business model innovation in response to potentially disruptive events in an incumbent organization's environment: The sensemaking, dialectical, and teleological mechanisms highlight issues relevant to the management of the innovation process both individually and in interaction. Each will be discussed briefly in the next paragraphs.

The *sensemaking mechanism* points out that the meaning of an event such as the market entry of a new competitor with a new business model is not a given reality for managers to be correctly or incorrectly discovered. Instead, it requires organizational actors at the top-management level to make sense of the uncertainty and ambiguity in

the continuous flow of experience by constructing events (e.g., “market entry”), locating them in a frame of reference (e.g., threat/opportunity assessment (cf. Gilbert, 2006)) in connection to existing mental models (e.g., the dimensions that constitute a product of “adequate” quality) and to create “a locally plausible story” (Weick, et al., 2005, p. 414) that guides and legitimizes actors’ behavior (Weick, 1995; Weick, et al., 2005).

The *dialectical mechanism* calls practitioners’ attention to the fact that the incumbent organization needs to find a workable balance between the new and the old business model (cf. Markides & Charitou, 2004) that pays attention to issues of identity (cf. Bouchikhi & Kimberly, 2003; Teece, 2010; Tripsas, 2009), competition for resources (cf. Bucherer, et al., 2012; Danneels, 2011; McGrath, 2010; Tripsas & Gavetti, 2000; Zott & Amit, 2010), and cannibalization in the market (cf. Teece, 2010).

Finally, the *teleological mechanism* addresses the managerial challenges of the innovation work at an operational level. As previous studies have indicated, this includes generating new ideas (e.g., Doz & Kosonen, 2010), trial-and-error learning about value creation and capture, and developing and experimenting with new business model configurations before implementing them in the market (e.g., Demil & Lecocq, 2010; McGrath, 2010; Sosna, et al., 2010).

The second implication relates to the specific *role of mental models and frames* of reference in sensemaking. The findings of this study suggest that the initiation of a business model innovation initiative in an incumbent context benefits the co-occurrence of framing a potentially disruptive new business model as both a threat and an opportunity, and a sophisticated mental model of value creation and capture.

Framing an event as a threat enables an incumbent organization to free organizational resources and build commitment for a new business model (Gilbert, 2005). However, existing research on newspaper publishers’ responses to the Internet suggests that this comes at the cost of an increasingly rigid and self-reinforcing focus on the existing business model (Gilbert, 2005). To overcome this rigidity embedded in (routine) organizational processes, the new business model needs to be simultaneously framed as an opportunity (Gilbert, 2005): This positive framing enables the unit in pursuit of the innovation to gain the necessary flexibility to challenge the organization’s dominant design of value creation and value capture (Gilbert, 2005, 2006).

In addition to the role of framing, the present study suggests that the development of a sophisticated *mental model* of a potentially disruptive new business model co-

determines an incumbent organization's behavioral response to the new business model. A sophisticated mental model represents the underlying system of value creation and capture in terms of "(1) the variables included in the system, (2) the properties and states of those variables, and (3) the causal or other relationships among those variables" (Huber & Lewis, 2010, p. 7). For the case site studied, the exploratory learning of an operational level innovation team provided managerial sensemaking with an extended set of variables and properties to refine existing mental models and assess the implications of a new business model that was introduced by new market entrants. In the empirical context, this helped the incumbent organization's managers to break out of or modify the cognitive structures that identify a product of adequate quality, features and its users (i.e., product ontology), relevant competitors (i.e., boundary beliefs), justification for what constitutes legitimate and illegitimate behavior (i.e., industry recipe), and benchmarks (i.e., reputational ranking) (Porac, et al., 2002; Tikkanen, et al., 2005). To that effect, the findings of the case study offer two conclusions: First, the management of an incumbent organization might benefit from assessing new market offerings connected to new ways of creating and capturing value on the basis of a business model framework (e.g., the value-based business model ontology specified in chapter A2.2) right from the start. A business model ontology provides managers with a diverse set of variables (i.e., the business model elements), properties (i.e., specifications of the business model elements), and relationships (e.g., the overall business model architecture) to build a sophisticated cognitive representation of a potentially disruptive occurrence such as, for example, a free newspaper. As indicated by other authors, the business model is not tied to industry barriers or product characteristics and may complement traditional strategic analyses in assessing the implications of potential disruptions that stretch existing industry definitions and underperform on traditional product dimensions (Bieger & Reinhold, 2011; Markides, 2006; Teece, 2010). Second, from the perspective of a manager championing a product that draws on new ways of creating and capturing value in an incumbent context, a business model ontology offers a diverse set of variables, properties, and relationships to systematically justify the incumbent organization's investment in the innovation initiative (Bucherer, et al., 2012). Moreover, given perceived conflict potential and synergies, it allows legitimizing a specific relationship configuration between the old and new business model (Markides & Charitou, 2004). Notwithstanding the benefits of assessing new ways of value creation and capture on the basis of a sophisticated mental model, business model innovation will still present substantial execution challenges

and require a considerable part of trial-and-error learning on behalf of the innovating unit (Govindarajan & Trimble, 2010; Markides & Oyon, 2010; Sosna, et al., 2010).

The third implication relates to the dialectical mechanism and the adequate level of *integration or separation between the new and old business model*. Both senior management and the manager leading the innovation effort need to be aware that the new business model inevitably creates tension within the incumbent organization (Markides & Charitou, 2004). The new and existing business models compete for organizational resources such as managerial attention, talent, and funding and may cannibalize each other in the market (Chesbrough, 2010; Govindarajan & Trimble, 2005b). Previous research has oftentimes suggested separating the new business model from the existing business in order to minimize conflict (e.g., Bower & Christensen, 1995; Bucherer, et al., 2012; Govindarajan & Trimble, 2005a, 2011). However, for the innovation to benefit from its association with the incumbent organization (Iansiti, et al., 2003; Westerman, et al., 2006), this study suggests, in agreement with Markides and Charitou (2004), that the level of integration between two conflicting business models should depend on the severity of conflict and the strategic market relatedness of the two models (cf. Figure 33). From this contingency perspective, there is no universally beneficial configuration.

Figure 33: Strategies for managing dual business models

		Strategic relatedness	
		Low (different markets)	High (similar markets)
Nature of conflict	Serious	Separation Strategy	Phased Integration Strategy
	Minor	Phased Separation Strategy	Integration Strategy

Source: Adapted from Markides and Charitou (2004, p. 24).

Over and above the insights from previous research, this study alerts managers to the fact that the design of the relationship between the new and existing business model is not a one-time decision. Both business models are dynamic entities (Demil &

Lecocq, 2010). Managers should plan to repeatedly assess and justify the optimal level of integration and separation based on two mechanisms: First, the accumulation of strategic assets (Barney, 1991; Dierickx & Cool, 1989; Markides & Williamson, 1996) by the unit operating the new business model that may benefit the existing business may warrant a tighter integration of previously separated units (Govindarajan & Trimble, 2005b; Markides & Charitou, 2004). Secondly, organizational actors learn about the new business model and its relationship with the existing business. Specifically, the innovating unit learns about essential aspects such as the development of its target market, customer needs, the business model's success factors and the systemic interaction of business model elements (McGrath, 2010; Sosna, et al., 2010). At the same time, the unit operating the old business model learns about the effects of the innovation on its own business, for example, to what extent the new business actually cannibalizes its market share or about the benefits of cooperation. For the context studied, the interaction between the two conflicting business models had to be learned after market launch because they did not lend themselves to a priori testing. In sum, learning may either increase or decrease the tension between the existing and the new business model and trigger motivation to change previously established levels of integration and separation between conflicting business models operating in strategically related markets over time. A set of objective and subjective, internal and market-based key metrics tailored to the specific business model should assist managers in this task. These might include the level of conflict perceived by operational staff and middle management, the market performance of joint commercial offerings, the overlap in target groups assessed on the basis of double sales figures and the level of customer migration between value propositions, and the perceived benefit of resource and talent transfer between the units operating the two business models.

In conclusion, this study offers three relevant implications for the top management of incumbent organizations and organizational actors championing business model innovation initiatives: First, it raises awareness of the fact that business model innovation is driven by three generative mechanisms. This includes the way the mental models and frames are activated to make sense of a new business model (i.e., sensemaking), the way the incumbent deals with conflict and finds a workable balance between the old and the new business model (i.e., dialectic), and the way the organization deals with the challenges of innovation work at an operational level (i.e., teleology). Second, it suggests that the senior management team and innovation champions might benefit from assessing and justifying new ways of creating and capturing value on the basis of

a business model ontology because the ontology enriches actors' mental models with a diverse set of variables, properties, and relationships. Finally, the study proposes that managers should prepare to repeatedly assess and justify the optimal level of integration or separation between the old and new business model based on the accumulation of strategic assets and learning about the new business model and its relationship with the existing business.

8.3 Limitations and implications for future research

The present study draws on an exploratory theory-elaborating case study (Lee, et al., 1999), using RINGIER, a media corporation, as the theoretically sampled research site (Eisenhardt & Graebner, 2007; Gibbert, et al., 2008) for answering questions about the innovation behavior of incumbent organizations that introduce a new business model alongside their existing operations. As indicated in the discussion section, this study faces three limitations that suggest avenues for further research.

The first limitation relates to the *claim of external validity*. The study derives propositions (cf. chapter C7) with regard to generative mechanisms, managerial cognition, and the accommodation of the new and existing business model on the basis of two business model innovation projects at a single research site. The claim of the external validity of the presented results rests on three pillars: First, the single case study was theoretically sampled to represent the phenomenon of interest (Eisenhardt & Graebner, 2007; Gibbert, et al., 2008) and the case context is described extensively (Gibbert, et al., 2008). Second, the single case study builds on existing generative mechanisms “that generalize beyond the immediate instance of the phenomenon and are critical to its occurrence” (Miller & Tsang, 2011, p. 147). Finally, the single case study is an instance of heuristic generalization that allows improvement of our understanding of existing phenomena by refining and elaborating existing models of business model innovation in an open-ended dialog between the particular case and the theoretical model (Tsoukas, 2004).

Nonetheless, to establish their external validity, the nine suggested propositions need testing and refinement across multiple contexts and research sites using large sample questionnaire-based designs or configurational comparative methods (Rihoux & Ragin, 2008). In particular, a cross-case comparison should pay attention to the following *peculiarities of the RINGIER context*: First, responsibility for value creation and value capture is separated into two domains, publishing and journalism, operating on different professional logics (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury,

2011; Thornton, et al., 2005). Future studies of incumbent organizations with actors in charge of jointly managing value creation and capture might show that competition from a new business model is assessed on the basis of more differentiated mental models right from the start (cf. Szulanski, et al., 2004). Second, the new business model introduced by foreign market entrants in 1999 presented an instance of sense-making in the face of equivocality (Weick, et al., 2005). Studies of more radically new business models confronting an incumbent organization may be valuable to assess whether the absence of information and meaning (Weick, 1995) changes the dynamics between the generative mechanisms in the identified process model configurations. Third, RINGIER had discretionary control over most of the resources necessary to innovate its business model. Accordingly, the dissemination of value and coordination of value creation in a network were of minor importance. Research on innovating open business models (Chesbrough, 2006) that rely on the innovation efforts and contribution of multiple partner organizations in a value network may add a valuable layer of complexity to the process model. Finally, the case studied represents one of perceived high conflict of two business models operating in strategically related markets (Markides & Charitou, 2004). However, future studies of business model initiatives could address the question of whether the role of the dialectical mechanism is mitigated in defining the relationship between the old and new business model and in legitimizing the innovative venture for cases of perceived lower conflict and strategically distant markets (Markides & Charitou, 2004).

The second limitation is of a methodological nature and relates to the use of *retrospective accounts*. The results of this study are partly based on retrospective accounts by key informants knowledgeable about the innovation process in question. Naturally, these accounts are subject to the limitations of human recall (Heise, 1989), cognitive biases (Golden, 1992), and ex-post rationalization (Heise, 1989; Langley, 2009). The methodology of this study addressed retrospection in a twofold manner: The first means was triangulation, using both different kinds of sources and interviewing multiple key interviewees representing present and past organization members (Golden, 1992). Second, interviewees' recall of the innovation process was supported by providing them with a time line of events derived from secondary data. In addition, more than half the interviewees entered the interview situation with corporate documents that documented key events in the innovation process and that they had retrieved from their personal archives.

Future research on business model innovation process might address these concerns even more extensively. Specifically, studies might benefit from combining cross-case comparisons of multiple cases studied in retrospect with following forward a single longitudinal study of an unfinished innovation process (Langley, 2009; Leonard-Barton, 1990; Poole, et al., 2000). Two aspects that might particularly benefit from such a design are the real-time observation of sensemaking as an overall process (cf. chapter B6.1) and the investigation of the emergence and use of variables and frames in making sense of a new business model (cf. chapter B6.2) as well as in defining its relationship with the existing business (Weick, 1995; Weick, et al., 2005) (cf. chapter B6.3).

The final limitation relates to the *tradeoff between investigating a phenomenon in breadth or depth*. The present study used an intensive case-study design (Ackroyd, 2009) to identify generative mechanisms that operate across an incumbent organization's business model innovation process. Given the nascent status of research on this phenomenon (cf. chapters 1.2, 2.2 and Edmondson & Mcmanus, 2007), the study analyzes the gestalt of the innovation process in breadth, focusing on five core concepts (Van de Ven, 1986; Van de Ven & Angle, 2000) and elaborating existing process theory (Langley, et al., 2013) by drawing on generative mechanisms identified in prior studies (Langley, 2009; Lee, et al., 1999). This comes at the expense of considering individual concepts at great depth but also points to four opportunities for conceptual refinement for further research:

First, the present study assumes a relatively coarse two-tier differentiation between organizational levels because of the way in which functional responsibilities are assigned in the selected empirical context. Future research might want to deploy a more fine-grained perspective of generative mechanism working across multiple levels (Pajunen, 2008). In particular, it might consider the impact of differences and interactions in individual, group and organizational-level sensemaking (cf. Weick, 1995; Weick, et al., 2005) and how dialectical tension at different organizational levels as well as related determinants of ambidexterity impact the innovation path and outcome (cf. Andriopoulos & Lewis, 2009; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; W. K. Smith, et al., 2010).

Second, the results of the case analysis highlight the importance of legitimacy as a subject of interaction between the generative mechanisms that drive business model innovation (cf. chapter B6.1). Future studies may want to distinguish between different types and sources of legitimacy to assess their respective influence on the business

model innovation process. Three studies that provide interesting leads are Zimmerman and Zeitz (2002), who have pointed to the importance of regulative, normative, cognitive, and industry legitimacy to new venture survival, Drori and Honig (2013), who analyzed the emergence of internal and external legitimacy in a new venture context, and O'Reilly and Tushman (2011), who point to the importance of strategic intent for legitimizing ambidextrous organizational configurations.

Third, the case analysis concluded in chapter B6.2 that a more sophisticated appraisal of free newspapers in sensemaking co-occurred with a simultaneous framing of free newspapers as threats and opportunities. However, the empirical context did not allow determining a definite causal relationship between framing and the variables activated in sensemaking. For future research, it would be worthwhile to study whether the sophistication of mental models constitutes an integral part of the influence of competing opportunity and threat frames on unlocking rigidities (Gilbert, 2005, 2006) or whether it represents a discrete influence in determining organizational actors' responses to disruptive stimuli given its touch points with the wider institutional context (Porac, et al., 2011; Porac, et al., 2002; Tikkanen, et al., 2005). In addition, it may be interesting to study whether the variables used in the sophisticated mental representations of the business model were latent and simply not activated at the time of the market disruption or whether they constitute new variables or "categories" (Bingham & Kahl, 2013; Kennedy & Fiss, 2013).

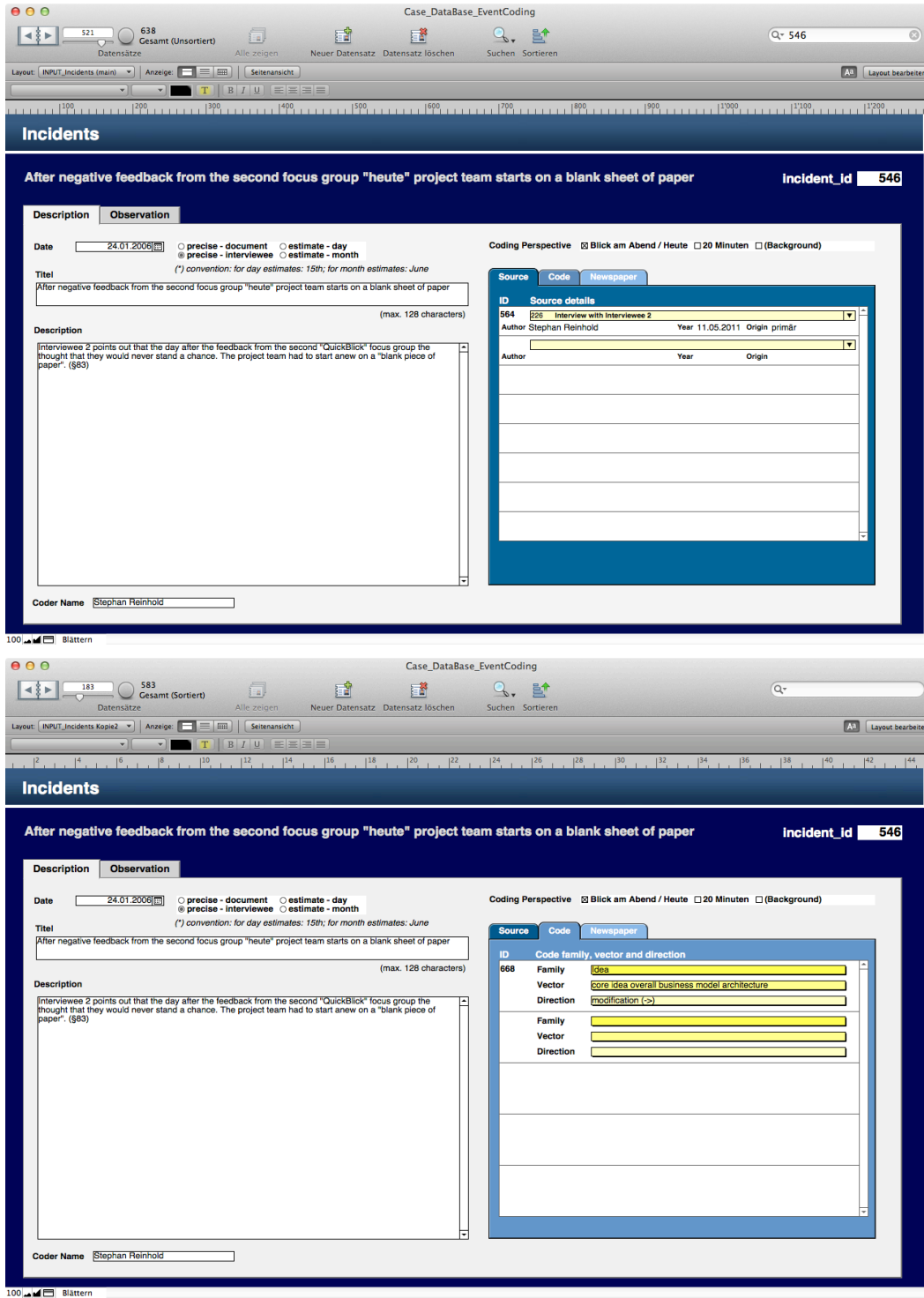
Finally, the present study identified two specific mechanisms that address the timing and reason incumbent organizations integrate or separate conflicting business models operating in strategically related markets. It would be relevant for both the ambidexterity (cf. Hill & Birkinshaw, 2008; Raisch & Birkinshaw, 2008; Raisch, et al., 2009; Tushman, et al., 2010) and business model literature (cf. Markides & Charitou, 2004; Moingeon & Lehmann-Ortega, 2010; W. K. Smith, et al., 2010) to identify both additional mechanisms that co-determine the level of integration or separation between existing and new business models as well as the directionality of their respective effects (e.g., Gilbert, 2006; Jansen, et al., 2009). The weight of different mechanisms might vary with the level of conflict between business models as well as the strategic relatedness of markets in which the business models operate (Markides & Charitou, 2004).

Overall, this dissertation presents key findings that concern three specific areas of the business model innovation process of incumbent organizations: First, the generative mechanisms that drive this particular innovation process, second, the role of or-

ganizational actors' mental models and cognitive frames, and third, asset stock accumulation and learning as drivers of integration between the existing and new business model. These findings establish the basis for further research to test and conceptually refine the proposed process model configurations and insights in order to arrive at a more comprehensive understanding of how incumbent organizations are able to introduce a new business model alongside their existing operations.

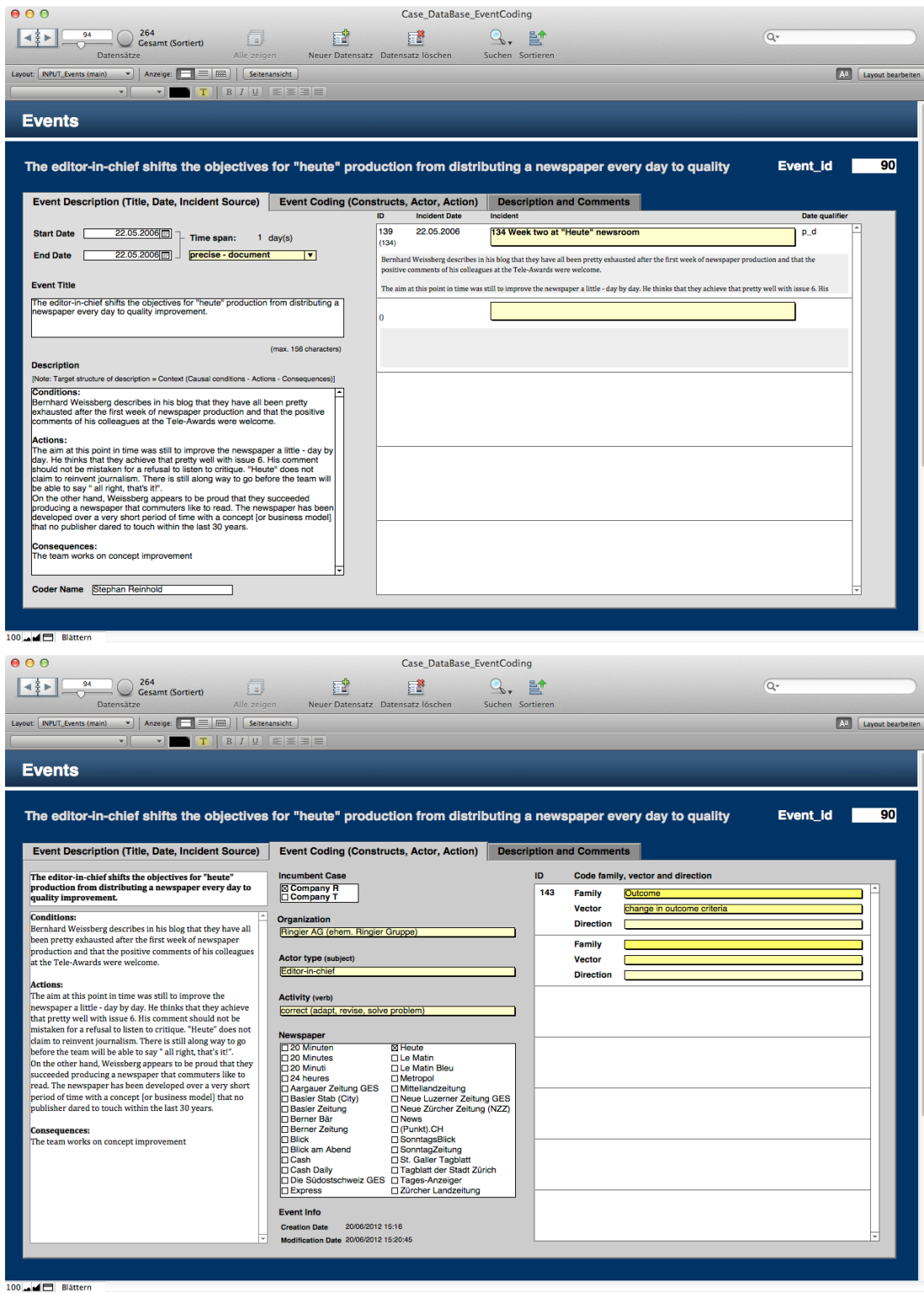
Appendix I: Illustration of data entry and coding

Figure 34: Data entry mask for incident coding



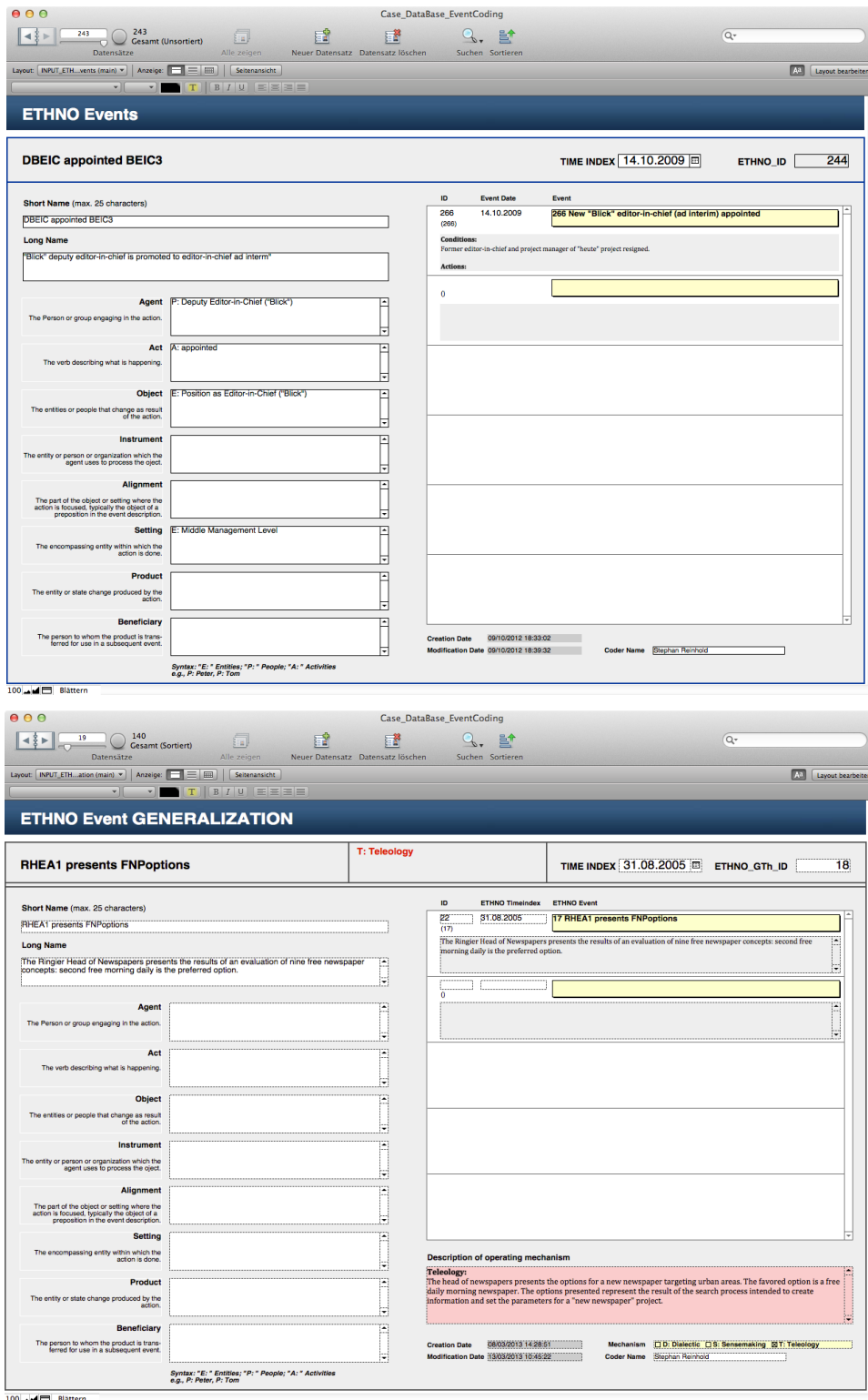
Source: Own representation.

Figure 35: Data entry mask for event coding



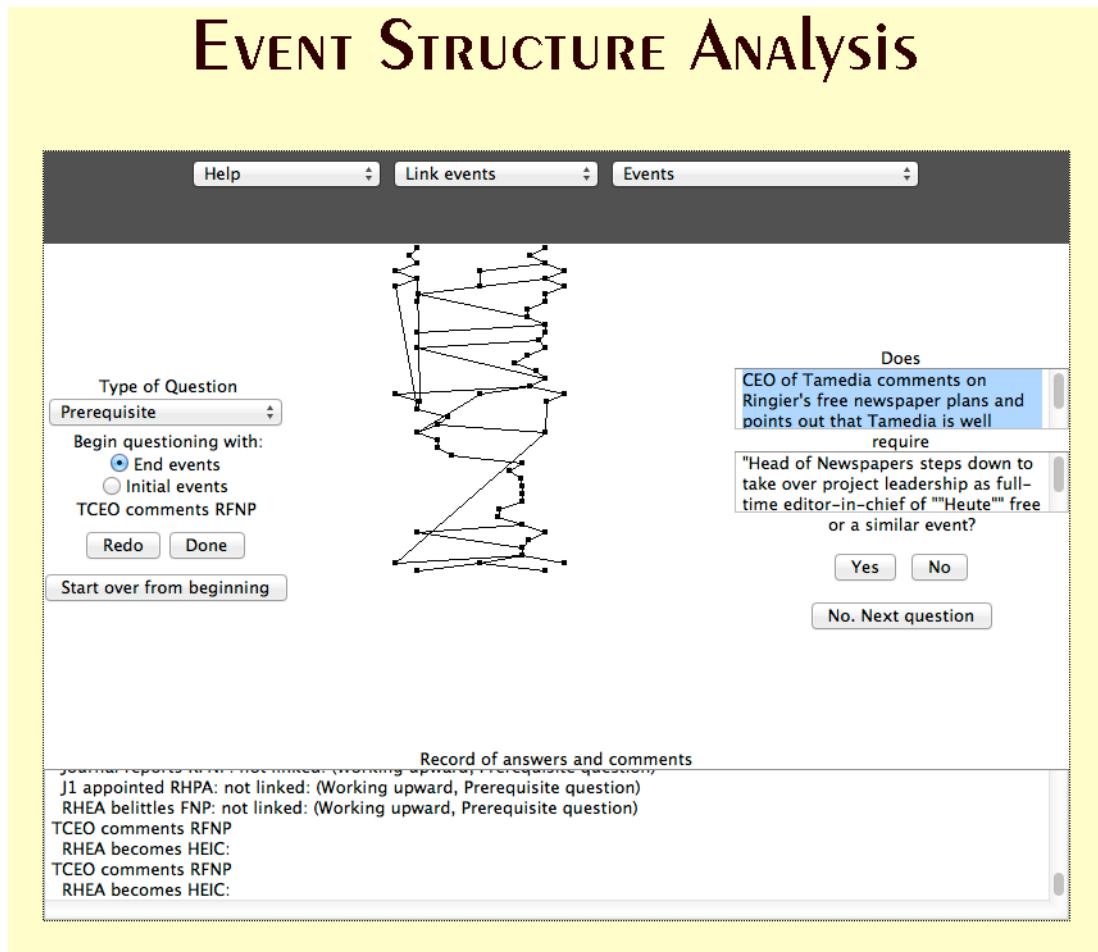
Source: Own representation.

Figure 36: Data entry mask for ETHNO and generalized ETHNO events



Source: Own representation.

Figure 37: Event structure analysis in ETHNO



Source: Own representation.

Appendix II: Tables of codes

Table 57: Incident codes

Code family	Description	Code value	Vector direction
Idea	"An incident is coded as an idea event when there is a change in the ideas that are deemed to be significant to the overall development of the innovation by the innovators. Changes in innovation ideas are classified into those that pertain to the business model and its elements or related ideas."	<i>Change in core ideas</i> (BM elements: value proposition, value creation, value communication and transfer, value capture, value dissemination, value development, overall BM architecture) <i>Change in related ideas</i>	Expansion (+) Contraction (-) Continuation (=) Modification (->)
People	"An incident is coded as a people event when there is a change in the staffing (turnover) or assignments (roles) of people holding key positions in the innovation as suggested by the innovators. In addition, key individuals responsible for the management of the innovation environment would also be included."	<i>Change in staffing</i> <i>Change in assignments (roles)</i> <i>Change in management</i>	Expansion (+) Contraction (-) Continuation (=) Modification (->)
Transaction	"An incident is coded as a transaction event when there is a change in the legal or social contracts associated with the innovation. This may relate to key transactions between the innovation and other organizations in the environment and also to transactions between people within the innovation unit. Efforts to change or modify existing transactions may also receive this code."	<i>Change of transaction within innovating unit</i> <i>Change in intra-organizational transaction</i> <i>Change in external transaction</i>	Expansion (+) Contraction (-) Continuation (=) Modification (->)
Context	"A context event is an external incident that is related to the innovation but occurred beyond the control of the innovation team. Context events are subdivided into organizational and external context."	<i>Change in readers' market</i> <i>Change in advertisers' market</i> <i>Change in competitors</i> <i>Change in substitutes</i> <i>Change in barriers</i> <i>Change in perceived predictability</i> <i>Change in pace of development</i> <i>Change in transfer</i> <i>Change in structural context</i> <i>Change in strategic context</i>	Expansion (+) Contraction (-) Continuation (=) Modification (->)
Outcome	"An incident is coded as an outcome event when a change occurs in the criteria or values of criteria used to judge the progress or outcomes of the innovation. Outcomes include both tangible results as well as less tangible value judgments about the success or failure of an innovation's development by key resource controllers and innovation managers."	<i>Positive outcome</i> <i>Negative outcome</i> <i>Mixed outcome</i> <i>Change in outcome dates</i> <i>Change in outcome criteria</i>	* There are no vector direction codes for this code family

(Table continued on next page)

Activity	“Activities that represent major cyclical ‘mileposts’ in the innovation’s development and important events – though they may not represent changes in the other constructs.”	<i>Administrative review</i> <i>Annual financial press conference</i> <i>Communication of circulation/ readership figures</i> <i>Communication of outcomes to top management</i> <i>Competence development or training</i> <i>Field study trip</i> <i>Image campaign</i> <i>Legal act</i> <i>Market (re-)launch</i> <i>Market exit</i> <i>Market expansion</i> <i>Market test of pilot product</i> <i>Meeting of board of directors</i> <i>Meeting of executive board</i> <i>Meeting of group executive board</i> <i>Meeting of publicist committee</i> <i>Negotiation of partnerships or investments</i> <i>Public call for distribution location bids</i> <i>Public communication of project status</i> <i>Resource procurement and budgeting cycle</i> <i>Strategy meeting</i> <i>Trade and professional conference</i>	* There are no vector direction codes for this code family
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Source: Adapted from Poole and colleagues (Poole, et al., 2000, pp. 104-111)

Table 58: Actors and activities

Actors		Activities
Chief executive officer	Owner	Commit (agree, appoint, grant, confirm, acquire) Conflict (disagree, fight) Correct (adapt, revise, solve problem) Evaluate (judge, review) Execute (perform, carry out, administer) Introduce (search, study, test) Negotiate (offer, discuss, modify) Propose (report, claim) Withhold (forbear, table, defer, reject)
Client	President	
Consultant	Scholar	
Deputy editor-in-chief	Stakeholder	
Editor-in-chief	Spokes person	
Head of department (editorial activities)	Staff (editorial activities)*	
Head of department (publishing activities)	Staff (innovation unit)*	
Journalist	Staff (publishing activities)*	
Manager (editorial activities)	The board of directors*	
Manager (innovation unit)	The executive board*	
Manager (publishing activities)	The group executive board*	
Member of board of directors	The innovation project team*	
Member of executive board	The publicist committee*	
Member of group executive board	Transaction partner	
Member of publicist committee		

*Note: * denotes collective actors. Source: Adapted from Poole and colleagues (2000, p. 110)*

Appendix IV: List of interviews and company documents

Table 59: Exploratory interviews

No.	Name	Function	Date	Length
1	Osterwalder, Alexander	Consultant and Speaker, Co-Author of "The Business Model Generation"	01/08/2010 (t)	35 min
2	Mierzejewska, Bozena	Assistant Professor of Communication and Media Management (Fordham University, New York)	12/10/2010 (p)	70 min
3	Vogt, Patrick	Owner and Managing Director of Vogt Media Consulting	12/17/2010 (p)	40 min
4	Küng, Lucy	Professor of Media Management (University of Jönköping, Sweden)	01/13/2011 (t)	30 min
5	Russ-Mohl, Stephan	Professor of Communication Sciences (Università della Svizzera italiana)	01/27/2011 (p)	50 min
6	Zollenkop, Michael	Principal Roland Berger Strategy Consultants	03/25/2011 (t)	55 min
7	Wyss, Vinzenz	Professor of Applied Linguistics (ZHAW, University of Applied Sciences, Winterthur)	04/12/2011 (p)	55 min
8	Stähler, Patrick	Founder and Partner of Fluidminds, Lecturer on business-model-related topics	05/05/2011 (p)	60 min
9	Bakker, Piet	Professor of Cross Media Content (School of Journalism and Communication at the Hogeschool, Utrecht)	05/23/2011 (t)	60 min

Note: (p) denotes interviews held in person; (t) denotes interviews held over the telephone. Source: Own representation.

Table 60: Company documents

No.	Document	Description	Date
1	Presentation	Nine free urban newspaper options	08/31/2005
2	Presentation	Analysis of seven free newspaper options	12/08/2005
3	Organization chart	Project organization for innovation project	12/14/2005
4	Presentation	Results of focus group test with QUICKBLICK PILOT	01/15/2006
5	Presentation	Request for permission to launch QUICKBLICK on the market (Group Executive Board)	01/26/2006
6	Presentation	Request for permission to launch HEUTE on the market (Group Executive Board)	03/15/2006
7	Presentation	Request for permission to launch HEUTE on the market (Board of Directors)	03/21/2006
8	Presentation	Introduction to HEUTE for advertising clients	04/03/2006
9	Presentation	Results of second administrative review of HEUTE	10/24/2007

(Table continued on next page)

10	Presentation	Introduction of product innovation BLICK AM ABEND to advertising clients	08/15/2008
11	Presentation	Geographic market expansion plans for BLICK AM ABEND	02/25/2009
12	Presentation	Facts and Figures on BLICK AM ABEND	06/18/2009
13	Excel table	Breakdown of revenue and cost structure for BLICK	05/16/2013

Source: Own representation.

Table 61: In-depth/expert interviews

No.	Name	Function*	Date	Length
1	Consultant 1	-	05/26/2011 (p)	70 min
2	Consultant 2	-	06/23/2011 (p)	145 min
3	Controller 1	-	05/05/2011 (p)	10 min
4	Editor-in-Chief 1	-	05/11/2011 (p)	100 min
5	Editor-in-Chief 2	-	05/12/2011 (p)	65 min
6	Editor-in-Chief 3	-	06/14/2011 (t)	60 min
7	Editor-in-Chief 4	-	06/15/2011 (p)	55 min
8	Journalist 1	-	05/11/2011 (p)	90 min
9	Journalist 2	-	11/12/2012 (p)	70 min
10	Journalist 3	-	11/22/2012 (p)	40 min
11	Manager 1	-	05/05/2011 (p) 06/29/2011 (p)	105 min 25 min
12	Manager 2	-	05/18/2011 (p)	80 min
13	Manager 3	-	05/20/2011 (p)	70 min
14	Manager 4	-	05/24/2011 (p)	65 min
16	Manager 5	-	06/15/2011 (p)	50 min
17	Manager 6	-	06/29/2011 (p)	70 min
18	Manager 7	-	11/13/2012 (t)	25 min
19	Manager 8	-	11/15/2012 (p)	45 min
20	Manager 9	-	05/06/2011 (p)	105 min
21	Manager 10	-	05/27/2011 (p) 08/10/2011 (p)	80 min 90 min
22	Manager 11	-	12/15/2010 (o)	30 min
23	Schwarz, Beat Gaudenz	Senior Key Account, SBB Immobilien	07/21/2011 (p)	75 min

Note: (p) denotes interviews held in person; (t) denotes interviews held over the telephone; (o) denotes observational visits; * functional description not further specified for data protection.

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Curriculum Vitae

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