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# **Business Model Innovation and Factors influencing Business Model Innovation**

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## **Abstract**

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**Keywords:** Business Model Innovation, Factors, Drivers, Barriers

**Thesis purpose:** The thesis aims to explore business model innovation in companies and the main factors having influence on the decision making process towards business model innovation. The thesis addresses a gap in the literature in regards to the main factors having impact on business model innovation and their interdependence.

**Methodology:** A case study design was picked for the purpose of exploring the topic stated. A four months internship in a company provided the authors with conditions to explore in-depth the phenomenon. Iterative approach has been employed, meaning that data collection and analysis were done simultaneously and referred back to each other during the process. This approach helped the authors to explore factors more comprehensively, including those identified in extant literature as well as new emerging ones, and to identify important patterns. This approach also allowed the authors to adjust the method during the data collection, which is a key feature of theory building case study. The empirical data collection was effectuated through semi-structured interviews. At the end this research aims to contribute to the literature by filling the gap identified.

**Theoretical perspectives:** Key concepts of this study are business model innovation and factors influencing business model innovation (Amit & Zott 2001; Chesbrough, 2010; Demil and Lecocq, 2010; Sako, 2012).

**Conclusions:** It has been revealed that there are a few main factors having impact on decision making towards business model innovation. These factors have been divided into drivers and barriers. And while literature discusses mainly barriers for business model innovation, we have explored both, drivers and barriers. They influence in opposite directions to business model innovation. The empirical findings in Skanska Oresund reflected argument of Johnson et al. (2008) that business model innovation should be undertaken only when companies are able to make sure that the opportunity is large enough to warrant the effort and risk.

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# 1. Introduction

## 1.1 Background

Innovation as part of the company's strategy proved to be key for its success (Kuratko et al., 2011). Innovation as part of the successful company has been also subject to a lot of discussions during the last decades. Until 15-20 years ago innovations were happening mainly in terms of new products and new services. Improved product or service was a prevalent way for companies to innovate and stay competitive on the market. That was how they created additional value for their customers (Osterwalder & Pigneur, 2010). However, the technology development, the openness of the world, the access to great volume of information and the development of the economies as a whole, led the companies into a situation where introducing an improved product or service was not enough to compete on the market. The competition became more fierce and companies started to seek for new ways to gain a competitive advantage (ibid, 2010). They started to try new ways of delivering value to their customers. In fact they started to pay more attention on the business model employed as a mean for commercialization of their products and services.

Business model innovation or renewal is one of the leading topics among researchers in innovation management and has been also on focus among practitioners during the past recent years (Zott et al., 2011). Initially the business model has attracted interest in relation to the transition from the traditional commerce to e-commerce. More recently business model has been discussed in the context of healthcare sector, mobile services, high-tech enterprises, material efficiency and others (Cavalcante et al., 2011). The researchers differ in their opinions regarding different aspects of the business model. Scholars do not agree on what a business model is and researchers often embrace definitions that fit their purposes (Zott et al., 2011). However, what is acknowledged widespread is that the business model is a new field of analysis and that it differs depending on the industry, the company or the particular product. "It is centered on a focal firm, but its boundaries are wider than those of the firm" (Zott et al., 2011, p.1020). Studying business models serves for different purposes: to understand the elements and the relationships in the specific business field, to communicate their importance to the outside world, to measure the performance to an organization or to find new ways to do business and to create value (Reuver et. al, 2007).

## 1.2 Problem discussion

Business models are not static and they need to be revised over time to fit to the changing environment, technologies, regulations (Reuver et al., 2007). Despite the overall enormous volume of literature discussing different aspects of business model innovation, there is little written about business model innovation in construction industry. We found few articles discussing the sustainability trend, green construction processes, value creation models in construction industry. Ilari Aho (2013) talks about switching to long-term sustainability practices and the need to change the business model accordingly. Leiringer et al. (2009) talk about servitization and integrated solutions trend and their relation to business models in construction industry. Some authors also argue that the question is not how construction companies can migrate from one business model to another, in order to respond to specific circumstances or trends, but more about how they can organize themselves in a way that a few business models coexist.

A few authors discuss the factors influencing the business model innovation. Organizational structure, routines and procedures seem to be barriers for innovation of the business model (Braganza et al., 2009). That is why according to Koen et al. (2011) and Parmar et al. (2014), incumbents struggle when it comes to innovations of their business models. Inertia was also identified as a factor fostering the innovation (Zott et al., 2011). Koen et al. (2011) argue that financial hurdle influence decision making on changing the business model or not. Leadership and culture have been determined by Chesbrough (2010) for playing important role in embracing new business model and leading the change to the new model. All these factors mentioned above could be qualified as barriers for business model innovation. What we found out is that literature discussed mainly the barriers but not drivers for innovating the business model. What is more, there are very few articles discussing factors in the context of construction industry. Factors having impact on the business model could be also conditionally divided on external and internal. External factors are the ones emerging from the external environment and internal ones are the factors originating from inside the company. However, there is no explicit differentiation in the existing literature of the factors according to these groups. Zott et al. (2005) present a summary of the literature

related to business model in their article “The business model: recent developments and future research” and despite the enormous volume of literature they have reviewed, there was nothing written explicitly about factors, but rather random use to some of them as part of other topic discussions.

Based on the aforementioned, we consider that there is a significant gap in the literature regarding the factors having impact on the business model innovation as overall, and more specifically in construction industry. Construction industry sector could be defined as a provider of facilities for all other industries and various buildings for people. Its assets include infrastructure, public and private buildings and homes and in fact affect all aspects of people’s life and the environment. This put great emphasis on the importance of this industry and we consider that bringing more clarity on processes and practices applied would contribute not only for the construction industry itself but also for the understanding of all interested parties. Our ultimate goal with this research would be to explore what are the main factors, both drivers and barriers, influencing the business model innovation and how these factors interplay with each other in the context of construction industry. Business model innovation is widely discussed among researchers and practitioners and is considered as one of the main approaches for companies to increase their competitiveness. That is why, we consider that having studied business model in the context of construction industry might contribute for companies’ understanding how to innovate their business models in practice.

### **1.3 Research question**

Based on our preliminary literature research, as well based on informal interviews, we concluded that further elaboration on factors, both drivers and barriers, which have impact on the innovation of the business model in construction industry sector is fruitful area for our research and would give a valuable contribution not only to the academic literature, but could also serve as useful insights for practitioners. It would be also interesting to see if the factors already identified in the literature as having impact on the business model innovation in general, have also influence in a construction industry context and which of them play the most critical role. Besides, our ambitions would also include to see if internal or external factors are most influential in this specific context,



and if there are new emerging factors which were not previously identified and discussed in literature.

Consequently, the research question best corresponding to our ambitions is as follows:

**What are the main factors influencing business model innovation and how do they influence the business model innovation in construction industry?**

#### **1.4 Purpose**

Having four months internship in a company from construction industry sector allowed the authors of this thesis to examine in-depth the phenomenon. The objectives set with this research are to identify the factors, both internal and external, which have impact on the business model innovation and to investigate how they influence its innovation. The authors aim not only to explore factors already identified in the literature, but also to search for new interrelations and consequently for new emerging factors in the specific context. The ambitions of this research are if not to fill the gap in the literature, at least to have a step forward in illuminating the topic. What is more, the outcomes could serve as useful insights for practitioners as well. As to our research method we picked single case study. According to Eisenhardt (1989), the case study focuses on the understanding of the dynamics within single settings. The qualitative character of this research allowed the authors to go in-depth of the studied phenomenon. As Bryman & Bell (2007) argue the inductive approach focuses on the relationship between theory and research and put emphasize on theory generation.

The company subject of this study is Skanska Oresund and operates in the region of Malmo, Sweden. The company operates in construction industry sector and has strong expertise in project development of commercial properties. The company has a long history and therefore it would give us a good basis for our research, by helping us to collect past empirical data. What is more, the company is part of an international construction and project development conglomerate and this fact would allow us to further explore how Skanska's Oresund business model interacts with the one on a holding level. Although the generalizability of this research is low, the results may serve for companies from construction industry to get more illumination on the most critical

factors for business model innovation.

## 1.5 Key concepts

The main topic of our research is *business model innovation*. According to Reuver et al. (2007, p.2) business model is “a blueprint for the way a business creates and captures value from new services or products”. As to innovation of the business model, this topic has great popularity in the academic fields and researchers differ in their opinions on what is innovation (Zott et al., 2011). Thus, Calvacante et al. talk about business model change, not innovation, and differentiate four types of changes: business model creation, extension, revision and termination. Other authors perceive the business model innovation as change to some of the components building the model (Amit & Zott 2001; Chesbrough, 2010; Demil and Lecocq, 2010). Sako (2012) suggest that business model innovation could be performed by continuous and incremental innovations. In this research we will stick to the latter, that every change represents an innovation of the business model, since we consider that even a small change could improve the way a firm creates and captures value.

Since we are more interested to study the dynamics of business model innovation, we will put emphasis on the exploration of the *factors* having relation to the innovation process of a business model. A few different factors have been identified in literature, such as culture, inertia, routines and procedures and others. We will review these factors more in-depth in the next chapter. Factors could be conditionally divided into drivers and barriers. The literature mainly discuss the barriers, but our ambitions with this study is to explore both, drivers and barriers, and to see what are the factors having major role in business model innovation.

## 2. Literature Review

### 2.1 Business Model

#### 2.1.1 Definition and concept of business model

Business model has been defined and conceptualized differently in terms of different focus in existing literature. Amit & Zott (2001, p. 216) suggest that business model could

be defined as “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities”, and they further conceptualized it as activity-system “a system of interdependent activities that transcends the focal firm and spans its boundaries”. Osterwalder et al.(2005, p.3) proposed a definition as “A business model is conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm”. Johnson et al.(2009) proposed that business model is consisted of four elements, including customer value proposition, profit formula, key resource and key process, taken together to create and deliver value.

Besides, some other researches describing business model focused more on the functional perspective, such as “Articulates the value proposition”; “Identifies a market segment and specify the revenue generation mechanism”; “Defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain”; “Details the revenue mechanism(s) by which the firm will be paid for the offering”; “Estimates the cost structure and profit potential (given value proposition and value chain structure), etc. (Chesbrough, 2010).

While the concept and definition of business model are depicted diversely, the prevalent proposal of the purpose of business model could be seen to creating and delivering value to customers. Zott & Amit (2005) proposed that business model is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams”. Teece (2010) mentioned that the essence and purpose of business model is to define a manner by which the enterprise delivers the value to the customer, entices customers to pay for value and converts those payments to profit. He mentioned that it provides a structure and framework on which the business could logically create and deliver value to customers. It also outlines the architecture of revenues, and profits associated with the business enterprise delivering that value.

### *Constituent-component Model*

The static view of business model provides a clear view or framework of the constituent component that make able the act of creating, capturing, and delivering value. Notably,

Osterwalder et al.(2005) proposed that business model is consisted of nine building blocks, and present it under the form of “Business Model Canvas”. The nine building blocks are based on four pillars: 1. *Product (value proposition)*; 2. *Customer interface*: includes target customer, distribution channel, and relationship; 3. *Infrastructure management*: includes value configuration, core competency and partner network; 4. *Financial Aspects*: includes cost structure and revenue model.

Johnson et al. (2008) depicted that “business model is consisted of four interlocking elements, that taken together, create and deliver value; these four elements are: 1. *Customer value proposition*, meaning the alternatives to solve customers’ current problem; 2. *Profit formula*, consisted of revenue model (price multiply volume), cost structure (including direct and indirect cost, economies of scale), margin model and resource velocity; 3. *Key resource*: refers to assets, technology, products, facilities, equipment, channels, and brand required to deliver the value proposition to the targeted customer, 4. *Key processes*: refers to operational and managerial processes that allow the firms to deliver value and also includes a company’s rules, metrics and norms.

#### *Activity-system Model*

Differently from static point of view, the transformational perspective address the managerial questions of how to change it (Demil and Lecocq, 2010). In this sense therefore it reflects the issue of this research more directly. Zott and Amit (2010), by describing business model as an activity-system, identified four design themes which detail the system’s dominant value creation drivers that orchestrate and connect the elements of activity system. The four design theme are described in the following: 1. *Novelty*: adopt new activities, and/or new ways of linking the activities, and/or new ways of governing the activities. As to this depiction, it reflects the essence of concept of business model, Amit & Zott (2010) proposed.

2. *Lock-in*: refers to those business model activities that create switching costs or enhance incentives for business model participants to stay and transact within the activity system.

3. *Complementarities*: refers to the value-enhancing effect of the interdependencies

among business model activities. In other words, the bundling activities within a system provides more value than operating activities separately.

4. *Efficiency*: refers to cost savings through the interconnections of the activity system.

### 2.1.2 Business model innovation

Frankenberger et al.(2013) described that fundamental business model innovation, as a novel way of how to create and capture value, is achieved through a change of one or multiple components in the business model. Sako (2012) mentioned that business model innovation can be subjected to continuous and incremental changes.

Frankenberger et al.(2013) depicted business model innovation exceeds the scope of the mere introduction of a new product or service offering and thus open up completely new opportunities of how to engage in economic exchanges. More specifically, they proposed four different stages of business model innovation process “Initiation, Ideation, Integration, and Implementation”. Cavalcante et al.(2011), holding that business model functions as a systematic analytical device, discussed the typology of business model change, including business model creation, extension, revision and termination and also observed different challenges.

Zott and Amit (2010), based on activity-system, proposed business model innovation can be achieved as following: 1. By adding novel activities, referring as new activity system “content”; 2. By linking activities in novel ways (structure), referring as new activity system “structure”; 3. By changing one or more parties that perform any of the activities, referring as new activity system “governance”.

It is interesting to notice that some authors argue for the need of two business models, at a same time. Vlaar et al. (2005) suggest that in an attempt to find the balance between current activities or existing business model and new opportunities or new business model, companies lack capacity or will to support two business models and in the end they fail in their innovations. Chesbrough (2010) also argues that organization’s culture must embrace and support the new business model and in same time to maintain the existing one, until the new model is able to replace the old one completely. Leiringer et al. (2008) also support this by arguing that the question is not how to

migrate from one model to another, but rather how an organization to structure itself on a way that different business models coexist. Radical change is too risky.

### **2.1.3 The Importance of business model innovation**

Many researchers have recognized the importance of adopting innovative business model to stay competitive in dynamic business environment (Bouchikhi and Kimberly, 2003, Amit and Zott, 2010; Chesbrough and Rosenbloom, 2002; Chesbrough, 2007; Comes and Berniker, 2008; Hamel, 2000; McGrath, 2010; Mitchell and Coles, 2003; Venkatraman and Henderson, 2008; Teece, 2010). Zott and Amit (2012) mentioned that the majority (54%) companies out of a global survey favored new business model over new products and services as a source of future competitive advantage. They proposed an innovative business model can either create a new market or allow a company to create and exploit new opportunities in existing markets. Other studies proposed that business model innovation works as a vehicle for corporate transformation and renewal (Demil & Lecocq; IBM Global Business Service, 2006; Christensen & Kagermann, 2008).

Chesbrough (2010) highlighted that technology advancement itself would not have huge commercial value until through the use of innovative business model. He used Xerox as a case to describe a technology (Ethernet) firstly invented by Xerox, being capitalized on by 3Com by limiting its business to designing add-in boards to provide a network capabilities to IBM compatible personal computers and eventually making it as a technology standard. Sako (2012) argued that even without novel technology, new business models can be central to ensure business success, for example Dell innovated its supply chain model to deliver compelling benefits to its end-users instead of improvement on the design of PC.

On the other hand, Johnson et al. (2008) argued that established companies should not undertake business model innovation lightly, as they can often create new products that disrupt competitors without fundamentally changing their own business model. They proposed that necessity of innovating business model comes when there is need to adjust all four elements of existing business model i.e. customer value proposition, profit formula, key resources and processes. They further stressed that the business model innovation wouldn't be necessary unless the change would guarantee the benefits.

## 2.2 Factors influencing business model innovation

In extant literature a few authors discuss the factors which have impact on company's decision for innovating the business model. Especially, we found out that most researches focused on discussing the internal factors within a company. External factors, generated by the external for the company environment, are touched insignificantly. What is more, researchers discuss mostly the barriers that companies face in the process of innovation of their business models.

### *Organizational structure / Routines*

The structure of company could hinder itself to innovate its business model, especially big size companies having more complicated or intricate structure. According to Koen et al. (2011) and Parmar et al. (2014), incumbents struggle when it comes to innovations of their business models. It seems that the *organizational structure, routines and procedures* that were tailored for current business operations, hinder companies from adapting to other opportunities and thus to innovate (Braganza et al., 2009). An example for this phenomenon can be found also in the case of Vlaar et al. (2005) "*Why Incumbents Struggle to Extract Value from New Strategic Options*", where a case of the airline industry was discussed. Chandy and Tellis (2000) suggest the term "incumbent's curse", which imply that incumbents struggle to introduce new business models because of certain characteristics within their organizations - structures and procedures. Further, Parmar et al. (2014) also support this opinion by saying that "established companies are notoriously bad at finding new ways to make money, despite the pressure on them to grow". As part of a research Frankenberger et al. (2013) report that managers have difficulties to "think in business model", because they are used to think in terms of new product developments only. This way of thinking also refers to inertia. Organizational structure and routines also lead in a way to management resistance. Chesbrough (2010) suggest that business model innovation conflicts with the more traditional configurations of firm assets that support the prevailing model and therefore those managers who being in charge of those assets are likely to resist experiments that might threaten their ongoing value to the company.

### *Inertia*

Inertia or also organizational inertia is a phenomenon which describes the inability of an organization to adapt its processes and practices according to the new circumstance. People continue to behave as they used to do and meet difficulties to change. Organization would face inertia as a barrier when modifying an existing business model or replacing it with a new process which requires more fundamental changes. It means that there will be forces which constrain companies' ability to make structural changes in response to environmental threats (Cavalcante et al., 2011; Zott et al., 2011) The inertia of existing structure, processes, and beliefs throughout the organization would accompany consequent tendency toward increasing rigidity and make innovation particularly difficult (Doz and Kosonen, 2010). Under construction industry context, Leiringer et al. (2008) argue that firms are as well under the influence of a structural inertia and are constrained by previous investments and routines. Holmen and Fallahi (2013) support that by arguing that the creation of routines in order to support current business, leads to difficulties to reorient company's activities and consequently to organizational inertia. Kaplan and Henderson (2005) make an addition to it by involving the incentive systems, and explain the difficulties in behavioral change with the fact that employees know from their experience what is the behaviour rewarded, and they apply it. Doz and Kosonen (2010) also talk about *path-dependency* and refer to lock-in mechanisms which would hinder company from changing business model or adopting new trajectories.

### *Culture*

Extant literature proved that the culture in an organization is an important factor for fostering the business model innovation. Chesbrough (2010) argues that organization's culture must embrace and support the new business model and in same time to maintain the existing one, until the new model is able to replace the old one completely. Chesbrough (2010, p.361) also argues that "It takes a strong organizational culture to navigate through these treacherous shoals, so that the local objectives of individual middle managers give way to the imperatives of the larger whole". The culture of being open to embrace the new business model would need to be formed but also be managed with efficient communication. Hedman and Kalling (2003) suggest that



managing the culture requires strong communication of the strategic purposes. Further, the management of culture should facilitate rethinking of the existing ways of doing business in favour of the new system. Sosna et al. (2010) put an emphasis on trial-and-error learning if a company wants to innovate its business model. But first culture in the company should be changed in order to embrace this approach. They also concluded that business model innovation, which are beyond just product or service innovation, would challenge established firms to the core of their organization and culture and has been proven difficult for many companies.

### *Leadership*

The importance of the leadership is highlighted for capitalizing on new business model and for being able to take the responsibility for leading a change (Chesbrough, 2010; Morris et al., 2005). More specifically, leadership is pointed out for being able to equip meta-skills or meta-capabilities in perceptions of the environment and employing strategy, in maintaining unity among team, and in capacity to reallocate or reconfigure resource to support the new models, by switching between parallel models and grafting capabilities and platforms to effect transformation (Chesbrough, 2010; Doz and Kosonen, 2010). In essence, internal leader should be identified for bringing forth the business model change in order to manage the result of these process and deliver a new and better model for company (Chesbrough, 2010). To put it simply, leadership is critical for company to overcome the rigidity that accompanies established business models (Zott et al., 2011; Doz and Kosonen, 2010).

### *Capacity and Resource Allocation*

The capacity of a company would be determinant when innovating a business model. Frankenberger et. al (2013) conceptualize the process of business model innovation and proposed some associated challenges in terms of capacity: being able to identify change-drivers, such as the change of technology and regulation, capacity to develop new business model ideas. The organization should also has the capacity to manage the partners within the network and to integrate all pieces of the business model in one, since changing one piece might be easy but integrating it and aligning with the rest of components might be difficult.

Some authors suggest that companies need to face the so called ambidexterity when innovating their business models and many of them fail to do it because lack capacity. It means that they have to balance between two business models in same time. Vlaar et al. (2005) suggest that in an attempt to find the balance between current activities or existing business model and new opportunities or new business model, companies lack capacity or will to support two business models and at the end they fail in their innovations. Chesbrough (2010) also argues that organizations must embrace and support the new business model and in same time to maintain the existing one, until the new model is able to replace the old one completely.

### *Technology*

Technology advancement is viewed as both external driver as well as barrier for company to innovate business model. Johnson et al. (2008) point out the opportunity of capitalizing on a new technology would justify the need to innovate company's business model. On the other hand, Chesbrough (2010) argues that disruptive technology or innovation would create tension in company's operations since the existing business model is designed to match to older technologies. Reuver et al. (2009) highlighted that within an environment with rapidly development of technologies, the only chance for companies to survive is to continuously reinvent their business models. Teece (2010) argues that technology can have a transformative effect on the costs of a company and gives an example with "cloud-solutions" which remove the need for small companies to invest in their own servers. Teece (2010) also point out that there are many examples of companies which successfully implement new technologies but fail in coupling the business model with the new technology. Chesbrough et al. (2002, p. 529) argue that "The business model unlocks latent value from a technology , but its logic constrains the subsequent search for new, alternative models for other technologies later on". Same authors also suggest that companies have to understand the cognitive role of the business model, and only then they will be able to commercialize a new technology and to capture value from it. An emphasis on the importance of the technology but as well on the business model innovation puts also Chesbrough (2007) arguing that today's innovations should include innovation of the business model and not solely technological innovations. He also suggests that a better business model will bring more

value than a better technology.

### *Competition*

Johnson et al. (2008) argues that business model innovation would be necessary when company needs to fend off low-end disrupters or respond to competition. The authors nonetheless stressed that business model innovation should be pursued only when company is confident that the opportunity or justification is large enough to warrant the effort. Teece (2010) suggest that even with reinvented business models, companies have to be more vigilant and careful against imitations. Further, Johnson et al. (2008) suggests a few reasons when a business model innovation should be undertaken, and one of the reason is to respond to the competition. According to Najmaei (2011) many executives rely on business model innovation in order to outcompete the competitors. Same author further suggests that implementing a business model innovation make the competition irrelevant and in same time create new value for customers.

## **2.3 Construction Industry**

### **2.3.1 Characteristics of construction industry**

#### *Sustainability versus Financial challenge*

When it comes to the construction industry itself the literature discusses numeral sector characteristics, such as sustainability, leadership, servitization, integrated solutions, and cost-plus configurations.

According to Aho (2013) construction companies are having difficulties with the transformation of their activities towards long-term sustainability. Part of the problem is due to the paradox that long-term sustainability of property and construction industry requires changes in current practices but these changes could be only financed by short-term profitability. In other words companies are advised to leave their current practices and to transform their business model into a more sustainable one, but in order to have financing about the transformation they still need profit from their current practices.

Also, Aho (2013) in the same paper argues that *performance* and *value* can be delivered only if these goals are shared through the entire value chain. The value chain

in the construction industry is consisted of tens of companies, suppliers and subcontractors. These different players manage their activities on the basis of cost-saving mechanisms and not value creation mechanisms since the price of their products is not formed on the basis of the added value that they create. Consequently, the settings of the industry don't provide incentives for companies to exceed their performance levels. In other words, the construction industry is currently facing a big challenge due to need to deliver sustainable communities and projects, but it does not have the appropriate mechanisms to do that. According to the same author, Private finance initiatives (PFI) and Public-private partnerships in their core are much more appropriate models to stimulate increased performance, but their potential is not fully utilized and in practice they are used simply as another form of financing. Also, according to Ilari Aho (2013) it is a big challenge for the research community now to create a sustainable business model to provide value added mechanisms.

#### *Integrated Solutions and Servitization*

Other important notions emerging from literature are *integrated solutions* and *servitization*. Brady et al. (2005) highlight the trend towards provision of integrated solutions in construction. According to Leiringer et al. (2008) companies are advised to abandon existing business models and to switch into models providing high-value solutions through the combination of products and services. The same implies and the term servitization. Servitization in manufacturing is "manufacturers to integrate services into their core offerings" (ibid, 2008). However, the added value should be customized and created based on the specific customer needs. In same time servitization trends can not be considered separately from the outsourcing trends to construction companies' customers.

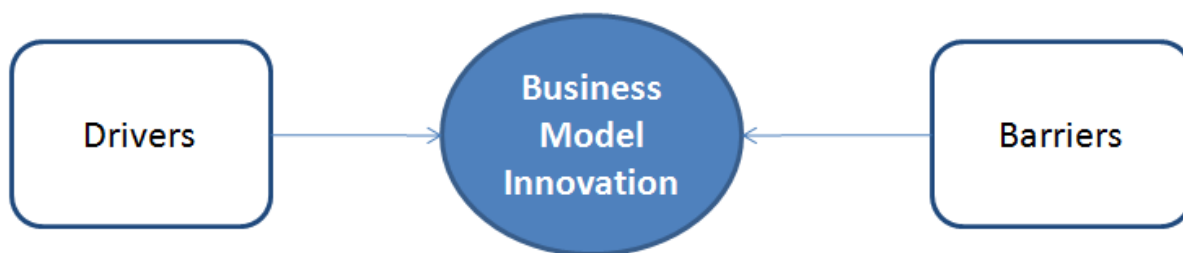
#### *Configuration Model for Creating Value*

Bygballe et al. (2009) mentioned that there are 3 possible configuration models through which companies from construction industry can create value. The first configuration is Porter's *value chain*. In this model companies create value by transforming the inputs into products and the main driver here is the cost reduction. The second type of configuration is the *value shop* logic. According to this model companies create value by

resolving customer needs through modification of existing products to fit better customer needs. The third configuration is organized around the *value network* logic and the role of the construction companies is to link customers and clients through the use of common resources. According to the same authors the vertical integration within the supply chain of construction industry can lead to improved performance.

## 2.4 Model for explorative analysis

The factors that have been discussed as part of the literature review have different influence on company's willingness to innovate its business model. Some of them act as drivers and stimulate companies to be more innovative, and others hinder innovation capabilities and consequently act as barriers. As our purpose is to explore the factors having influence on business model innovation and the way that they exert their influence, we consider as appropriate to classify them into drivers and barriers in our findings and analysis. As seen from figure below they act in opposite directions and would be intriguingly to see their interconnection and simultaneous influence on business model.



## 3. Research Method

### 3.1 Overall research design and process

#### 3.1.1 Research strategy

The aim of this research is to generate knowledge about how an organization makes decisions related to business model innovation. It aims to fill a gap in literature in regards to factors, both drivers and barriers, having influence on companies' decisions

for business model innovation and how do they exert their influence. This research is more interested with words rather than numbers and consequently qualitative research strategy would best fit the purpose. Qualitative research is associated with interpretivism which refers to “strategy that respects the differences between people and the objects of the natural sciences...and therefore the subjective meaning of social action should be grasped” (Bryman & Bell, 2007). Qualitative research methods assume richness and fullness in studying a phenomenon since they allow to get deep insights and to understand the contextual factors having impact on it (Bryman, 2012; Saunders et al, 2009). Qualitative research implies an inductive view on the relationship between theory and empirical data, which means that theory is generated out of the research (Bryman & Bell, 2007).

### **3.1.2 Research Design and Method**

As the purpose of this research is set to explore in-depth a phenomenon in construction industry, a case study design was selected. As Stake (1995) suggests, case study research is concerned with the complexity of the question examined. The emphasis is on the intensive examination of the particular settings and tends to elucidate the unique characteristics of the case, thus referring to idiographic approach (Bryman & Bell, 2007). It allowed to explore in-depth the contextual settings within the focal company and more specifically what were the particular factors having impact on business model innovation, and how did they exert their influence. At the end, all these characteristics of the case study determine it as an appropriate approach for building a theory from empirical data (Eisenhardt, 1989).

As Bryman & Bell suggest (2007), the interview is the most employed method in qualitative research and therefore was chosen to accomplish the goal of collecting empirical data in this research. In qualitative interviewing, the emphasis is on the interviewee’s point of view and this allows gathering rich information and sometimes having unexpected revelations. Semi-structured interviews were employed as it was considered as the most appropriate technique in accomplishing the particular research goals. Semi-structured interviews outline the main topics to be covered, and in same time the interviewees have great leeway in their answers (Bryman & Bell, 2007). This approach first provides a degree of structure which help interviewer to follow the line of

the interview, but it also gives flexibility by allowing interviewer to adjust the questions according to the direction of the particular interview (Eisenhardt, 1989; Bryman & Bell, 2007).

### **3.1.3 Research process**

The aim of this research was to collect empirical data from the focal company and to generate a novel theory. Four months internship in the construction company Skanska Oresund provided great opportunity to explore the particular settings within the company and the specific factors related to business model innovation within these settings. The research process followed the model described by Eisenhardt (1989) for building theory from a case study. In same time, it was more or less in alignment with qualitative research strategies (Bryman, 2012, Saunders et al, 2009).

The process of gathering data started with informal talks and entrepreneurial health audit of the company. This first data collected allowed to form areas of interest which to be further explored. An initial literature review was then conducted and served as a facilitator for choosing the final research area. The area selected was related to business model innovation and despite it was rather broad topic at this stage, it gave a direction to further work on. Further literature review revealed different aspects of business model innovation. A gap in literature was identified and this helped to narrow down the research area. The existing literature provided only limited knowledge on factors having impact on business model innovation as overall and even more limited insights within construction industry context. This served as a good argumentation for formulation of the research question. Thus, the final research question was set to explore “what” are the factors having influence on business model innovation and “how” do they exert their influence. Literature review continued in direction of exploring the factors, both drivers and barriers, related to business model innovation. Having a good understanding of the factors already identified in previous researches would allow setting a clear focus during the interviews. Based on the existing literature, a conceptual explorative model was built and aimed to provide a clear framework for collecting and analyzing the data, thus implying a deductive element. The model used implied two main categories of factors having impact on business model innovation, and namely drivers and barriers.

Next step was related to data collection process and included documents review, interviews and field notes. Combining data collection methods is typical for qualitative research (Eisenhardt, 1989). Industry and company specific information was collected through review of the website of the company and the annual reports, as well through informal talks. Interview guide was created and served as a basis for conducting formal interviews with employees within the company. Four semi-structured interviews were conducted with people on different positions. The process of collecting data through interviews overlapped with literature review and analysis of the empirical data. Iterative approach was employed in the process of collecting and analyzing the data, meaning that the empirical data was compared to the literature continuously (Bryman & Bell, 2007). Overlap of data collection with data analysis is typical for building theory from case studies (Eisenhardt, 1989). This approach helped to refine the research question and to identify the right interviewees according the needs of the research, in order to replicate or extend the emergent theory (ibid, 1989).

The final step of this research process answered the research question by revealing the main factors having influence on business model innovation and depicting causation between factors and business model, as well the interplay between different factors, thus allowing to make the first step in filling the gap in the literature.

## **3.2 Data collection**

The following describes the data collection method employed, sample selection and preparation for interviews.

### **3.2.1 Data collection method**

Data collection method included different types of sources. Documents review, informal talks, field notes and interviews were selected as sources of collecting data. As a main data collection source, semi-structured interviews were employed since this approach allows setting an interview line and in same time provides leeway in interviewees' answers (Bryman & Bell, 2007). Same authors advise that if researchers have a clear focus on the topic investigated, semi-structured interviews are the most appropriate method. With the interviews in Skanska Oresund, the main aim was to understand the current business model of the company and its dynamics, and any critical factor which has a stand in influencing business model innovation. Data from interviews could be



overwhelming (Eisenhardt, 1989) and further on, field notes, informal talks and documents review helped to cope with it and to clarify some of the unclear matters in the process of building a clear picture of the company.

As part of data collection strategy was to have two interviewers on each interview. The first interviewer was asking questions and the second interviewer was making notes. According to Van Maanen (1988), field notes combine both observation and analysis and represent conscious commentaries from the interview. Field notes should reflect the impression occurred during the interview (Eisenhardt, 1989) and are used as help for interpreting the data.

### 3.2.2 Preparation for interviews and sample selection

#### *General preparation*

An important part of the interviews preparation was preparation of the interviewers. The authors made effort to be as familiar as possible with the research area, as well as to be familiar with the contextual settings in the company (Bryman & Bell, 2007).

Business model is interpreted differently in literature and an assumption was made that this would be the case with the interviewees as well. That is why it was decided to send a preliminary introduction to the interviewees selected about the main topics in focus during the interviews, thus allowing them to be prepared and be able to discuss business model innovation. Since it is not an usual topic, people may need time to become familiar with it, which would help to gather more relevant data from the interviews.

Apart of the afore mentioned preparations, 2 recording devices were set in place and quiet settings for conducting the interviews (Bryman & Bell, 2007). From one side the quiet place was important for having a good tape recording, but from another side it was a factor for predisposing the people and having a relaxing conversations.

#### *Interview guide*

Semi-structured interviews were selected for collecting data and therefore an interview guide was developed. The interview guide outlines the main topics to be covered and it serves as a guide for the interviewer (Bryman & Bell, 2007). Questions were designed

in a way ensuring that they were not leading the interviewees, since biasing interviewees' opinion may distort the results of the study. Semi-structured interviews allowed adjustment of the questions along the interviews (ibid, 2007). Questions followed a logical order to ensure smoothly going interviews. Inspiration from literature was used at first place for formulation of the interview questions. Secondly, questions designed for delving into emerging theory were selected, thus allowing to accomplish the main purpose of this study and namely to generate theory. First section questions were related to general matters like name, background and position of the interviewees, which aimed to predispose the people and gradually involve them into more important topics. Second set of questions were related to business model definition and interpretation of business model innovation within company's context, and its development over time. This section aimed to gather people's understanding about the business model of the company, perception of innovation and importance of business model. As to third set of questions, the aim was to delve into factors having impact on business model innovation and to explore how they interplay and influence managerial decisions. Interviewees were first asked to identify by themselves factors that might be relevant to business model innovation and reasons for being relevant. Secondly, questions related to factors previously identified in literature were included, in order to investigate if these factors had also an impact within the specific company and industry settings. The approach described aimed to first gather interviewees' "unbiased opinions" about the factors. In the process of formulating interview questions academical concepts were translated into simple words, thus adjusting the language according the target group (Bryman & Bell, 2007).

### *Sample*

Theoretical sampling was employed for selecting the interviewees. This is an approach of data collection whereby the researcher collects, codes and analyzes the data and then decides who would be next interviewee or where else to find the necessary data in orders to develop his/her theory (Bryman & Bell, 2007). First interviewee selected was the managing director of the company. She was the first one picked since she had an overall view of the entire company and also provided some hints for who might be next interviewees. Next, three more interviewees were chosen including people equipped

with sufficient knowledge about business model, i.e. they were considered as being familiar with business model of the company and being able to answer questions about business model innovation and factors influencing it. Therefore, four interviews were conducted, including one formal middle manager, one top manager and two non-managers. They all had a broader overview and knowledge with regard to business model of Skanska Oresund Malmo, its innovation, the factors influencing its innovation and had deciding power whether to innovate or not. What is more, the structure of Skanska Oresund Malmo is rather flat and due to this, formal managerial position is not always determinant for actual job responsibilities. The business developer, even not a managerial level, is responsible for the development of new business opportunities and consequently also familiar with business model of the company. Therefore it was concluded that it was good to have his opinion. Interviewees included in the short list were: the managing director, a project manager, the business developer and an employee responsible for leasing activities.

### **3.3 Method for data analysis**

Case study research strategy defines the main approach employed in data analysis. It puts emphasis on understanding the dynamics in single settings and allows exploring in details the phenomenon (Eisenhardt, 1989). The data collection and analysis were done simultaneously and referred back to each other during the process, meaning that factors emerging from data were constantly compared to literature and thus referring to iterative process (Bryman & Bell, 2007). First step in analyzing the data was within-case analysis, here referring to analysis of every single interview conducted. Being as familiar as possible with data from every single interview is a prerequisite for further search of patterns across interviews. This approach helped to explore factors more comprehensively and to identify important patterns. Having solid understanding of each interview allowed adjustments along with data collection process, which is a key feature of theory building case study. The qualitative data gathered allowed to directly suggest a theory (Eisenhardt 1989).

Further on, in order to have a clear view on case company's current business model, Business Model Canvas of Osterwalder et al. (2010) was employed as a template. It worked as a basis for analysis whether any innovation has occurred along the time. It

has been used as a prerequisite before to have a look into the factors having influence on company's decision towards business model innovation.

#### *Transcribing and Coding the Data*

Transcribing and coding the data collected is an essential stage of a qualitative research strategy. This is the phase where the researcher transforms the raw data into findings and meaningful information, and thus consequently it would affect the analysis and outcomes of the research.

The interviews were transcribed right after the closure of each of them. Everything said during the interviews was firstly transcribed and then coded into concepts. This process was performed by the two authors. As Breuer et al. (2007) argue an essential requirement for coding the collected data from interviews is to have multiple coders. It is important to have more than one coder since there is always a subjective element in the coding and having different views on the information collected helps to interpret more accurately the findings (Bryman & Bell, 2007). Coding as soon as possible after the interview is important since the information and the impressions are still fresh (ibid, 2007). During the coding process, the information extracted was first compared to factors and concepts in literature. Next, factors not being identified in past literature were categorized in new concepts. It was an iterative process, back and forth, trying to holistically find out if there was a connection between findings and literature. After the first stage of categorization of the factors some of the categories were splitted into smaller categories in an attempt to identify some nuances among the factors.

### **3.4 Reflections of method choices**

Qualitative strategy chosen allowed for deep and thorough examination of the phenomenon. Qualitative research is more interested with words rather than numbers and predispose to theory generation out of the empirical data (Bryman & Bell, 2007). The case study design employed further facilitated theory generation, by exploring in-depth the phenomenon. Theoretical sampling allowed for theory building by providing opportunity to select interviewees according the needs of theory generating process (Eisenhardt, 1989). Semi-structured interviews provided great leeway of interviewees' answers thus assuming richness and fullness of the empirical data. Triangulation

process employed, i.e. having different sources of information, reinforced the validity of the findings (Eisenhardt, 1989; Bryman & Bell, 2007).

On the other hand, qualitative research requires experienced researchers in data collection and analysis of the empirical data and assumes a subjective element in data interpretation process. Single case study has its limitations in terms of generalizability of the outcomes (Bryman & Bell, 2007). Thus a criticism might include that a rather narrow and idiosyncratic perspective could limit the research results application (Eisenhardt, 1989). Therefore case study approach can provide deep insights but low generalizability. Although this research did not produce widely supported results, it provided some interesting insights for both, practitioners and academics, which could be further tested within quantitative settings.

## 4. Findings

This chapter serves to display the empirical research findings. Firstly, a background of the case study company will be provided with the purpose of a clear overview of the firm's historical development and current business activities, by describing the current value chain. Secondly, the company's business model would be depicted with the help of business model canvas to Osterwalder et al. (2010). Thirdly, the factors which influence the company's decisions in regards to innovation of business model would be depicted. Some findings would be complemented with some analytical elements in chapter five in order to comprehensively describe the complete information we have collected.

### 4.1 Company Overview: Skanska Oresund Malmo

#### *Skanska AB*

Information of Skanska AB in brief would be provided before discussing the case company - Skanska Oresund Malmo. Skanska is one of the world's ten largest project development and construction groups. The company operates in the Nordic region, Western and Central Europe, US, and Latin America. It employs 57 000 people in total. Its core values concerned green construction, ethics, occupational health and safety.

Skanska AB has four different business units: Construction Unit, Infrastructure Unit, Commercial Development Unit and Residential Unit. It is a leader in green projects and sets high standards for all its projects in residential, infrastructure and commercial divisions.

### *Skanska Oresund Malmo*

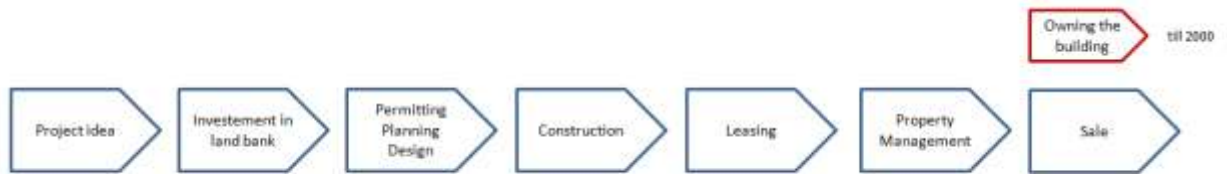
The case company Skanska Oresund Malmo is an independent company located in Malmo, Sweden, and it is part of the commercial property development division of Skanska AB. More specifically, Skanska Oresund Malmo belongs to the Commercial Development Nordic (CDN). Its field of expertise are office buildings, shopping malls and logistic centers. As part of CDN, Skanska Oresund plans and develops long-term sustainable property projects at attractive locations and works closely with its stakeholders to create green, inspiring and efficient workplaces, which increase profitability to all parties.

Currently, the company has 19 employees. The structure of the company could be basically divided into two hierarchical levels. At the top management level is the managing director only who has the responsibility to manage the company and is accountable to management board of commercial development nordic (CDN). The second management level in the company includes project managers, marketing and sales manager, business developers, financial manager. The rest of the staff includes some administrative staff, project assistants, finance team, marketing and sales people.

Decentralization is typical for the holding and Skanska Oresund Malmo operates relatively independent. This means that it is able to decide what projects to initiate, how to run the projects, what concepts to be applied, etc, as long as the company respects and shares the corporate strategies and values. Currently Skanska Oresund Malmo is running several projects and a some of them should be finalized within the next 2-3 years.

### *Skanska Oresund's Value Chain*

The value chain of the company presents all critical steps in the value creation process, referring to all steps that the company undertakes through the process in developing each project.



The logic of the project development process of Skanska Oresund is as follows. First, the company defines a project idea. Second stage is related to the so called land bank, where the company invests in a piece of land. Third stage is about arranging permissions for the project, design of the project and planning the activities, including initial project management plan. On the fourth step the company accomplishes the project. Fifth step, after the project is done, the company focuses on finding tenants and signing lease contracts. Finding tenants usually overlap with the previous stage, since once the project is done the building should be filled up with companies as soon as possible. Sixth, the company manages the building for a while and generates profit from the rents. However, generating profit from rents is not the main goal of the company. Skanska generates the real return from the project when sell the building to an investor which happens on the last 7th stage. In general, the profit for the company is equal to the sale amount minus the building costs.

The project development process described above has not been subject to major changes for the last few decades, except one change around 2000 year. Until 2000 year Skanska Oresund was not only property developer but also a property management company, owning approximately 100 buildings in the region of Malmo. Then Skanska AB, the mother company, decided that the companies part of commercial property development unit, where Skanska Oresund belongs, would make more profit if sell the buildings instead of managing them. From this moment onwards Skanska Oresund changed its business model and became only a project development company by selling all projects to investors after being completed, as it is shown above.

### *Skanska Oresund's Business Model*

Business model is the content and the relationships between the different stages in the

value chain and the stakeholders involved, and describes the rationale of how the company creates and deliver value (Osterwalder et al., 2010). Or it is “the content , structure and governance of transactions designed so as to create value through the exploitation of business opportunities” (Amit and Zott, 2007, p.181).

Skanska Oresund Malmo has the discretion to design its own business model, as long as it is aligned with the business model of the holding as a whole, and respects the core values of the mother company. In order to present clearly the business model of Skanska Oresund and how the company interplays with the different components of it and how creates value, we will employ the business model canvas of Osterwalder.

### Business Model Building Blocks

<b>Key Partners</b> 1. Municipality 2. Architectural firms 3. Tenants 4. Investors	<b>Key Resources</b> 1. Physical - buildings 2. Intellectual - customer database, brand, knowledge, etc. 3. Human - civil engineers, finance, sales 4. Financial	<b>Value Proposition</b> 1. Office space 2. Consulting - Help customers to define their needs for the office	<b>Customer Relationships</b> 1. Personal assistance	<b>Customer Segments</b> 1. Tenants: -Office-space tenants (SMEs or big-size companies) -Restaurants, cafes 2. Investors
<b>Key Activities</b> 1. Design a project 2. Find a land 3. Build a building 4. Find tenants 5. Manage the property 6. Sell to investor			<b>Channels</b> 1. Proactive approach 2. From mouth to mouth	
<b>Cost Structure</b> 1. Cost driven 2. Value driven		<b>Revenue Streams</b> 1. Leasing / Rent 2. Asset sale		

As we already introduced in chapter two, business model canvas of Osterwalder et al. (2010) has been used for analyzing the business model of the company. The canvas includes nine building blocks: *Customer Segments, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partners, Cost Structure*. This business model canvas gives a clear view of the business model of a company by exploring all most important elements in it.



### Customer Segments

Customer segment category aims to identify the main categories of customers. The customers of Skanska can be divided into two main groups – tenants and investors. The tenants group rents offices in Skanska's premises, while the investors buy the properties built by Skanska. Tenants could be big, mid-size or small-size companies.

### Value Propositions

The value proposition category is concerned with the product or the value that Skanska provides to its customers. The company offers at first place an office space. The office space product is often complemented with additional help that the company provides to its customers in terms of defining their specific needs for the office and helping them to be achieved.

In regards to their second category of customers, the investors, Skanska offers a fully developed property, a sustainable and reliable long-term investment. In fact, after the property of Skanska is completed and housed with tenants it is ready to be sold out to an investor.

### Channels

This category refers to the way of reaching potential customers and Skanska has two main approaches. First, the company is proactive in contacting potential customers by using proved ways for identifying those customers who might need an office. Second, could be called "mouth-to-mouth" approach. In this case the company relies on its brand and good name. In order this approach to be viable, the company always tries to offer best possible products to its customers, so that could have a good reference.

### Customer Relationships

Customer relationships refer to the way that Skanska communicates to its existing customers. In most cases the communication could be identified as "personal assistance", meaning that when a customer needs something it usually calls a specific person from marketing and sales department within Skanska.

### Revenue Streams

This category identifies the main revenue channels of the company. Skanska has two main revenue streams. The first one is from leasing and renting fees in the time when the properties are still owned by the company. These could be from restaurants, cafes, companies and all other tenants paying a rent. The second revenue stream could be identified as asset sale and it is a fact when the company sells a property to an investor.

### Key Resources

Key resources are essential for companies to run their businesses. Skanska has four types of resources: physical resources - land, technical equipment and buildings; Intellectual resources – partnership with different organizations, customer database, brand; human resources - skilled employees and financial resource – profit from its own projects or funds from the holding Skanska AB.

### Key Activities

The key activities are concerned with the activities which companies perform in order to create their products and services. The key activities in Skanska are connected to the value chain of the company and the seven main stages in it. These activities include design of a project idea, investment in a land, activities concerned with permissions planning and design of the project, building of the project, leasing of the office spaces after the building is completed, management of the property and at the end sales activities related to the sale of the property to an investor.

### Key Partners

This building block describes the partners of the company. Skanska has a long history and needs to have relationships with many companies in order to supply its projects. These companies are not only suppliers but in many cases partners to Skanska. There are four main categories of partners

*Municipality of Malmo* - it owns many properties in Malmo and Skanska has a solid relationships with it and have discussions together about the overall city planning.

*Architectural firms* – Skanska does not have an own architectural studio and uses external parties.

*Tenants* – tenants are mainly customers but in some cases they can be also partners to Skanska.

*Investors* - investors are also customers to the company, but they also provide critical business information to the company and in this sense are partners.

### Cost Structure

The cost structure of companies is related to the business model employed. Osterwalder et al. (2010) differentiate two types of business models – value-driven and cost-driven. Value-driven model aims to create more value, while a cost driven aims to minimize the costs. The business model of Skanska Oresund is value-driven and this means that first priority for the company is to create value for its customers.

## **4.2 Empirical data from interviews**

### **4.2.1 General Findings**

#### *Business model*

First we would like to discuss our findings in regards to business model since it is the basis of our further findings for influencing factors. People from Skanska Oresund give different definitions about business model. Thus for example the managing director, who as part of her duties have an overall look of the value chain of the company, refers to the value chain when describes the business model and argues that a value is created on each step of it. However, the business developer of the company, whose main responsibilities relate to the leasing activities of the office space and exploration of new business opportunities, argues that business model is concerned with leasing activities and divestment of the projects. Another definition given from a project manager is “what we do and how we do it”, and his main job is to manage the development projects. As to the question if the business model is value-driven or cost - driven, all interviewees confirm that the business model of Skanska Oresund is value-driven.

Despite the different definitions given for what a business model is, there is one same opinion when talking about purpose of the business model. All interviewees see the business model as a mean to create value and profit, respectively for customers and

Skanska.

### *Business model innovation*

All interviewees mentioned that Skanska Oresund changed its business model dramatically around 2000 year according to decision of Skanska AB, shifting from project development and property management company into project development company solely. That is, Skanska Oresund, used to be both project development and property management company, abandoned property management activities and focused on project development activities mainly. This business model change aimed to increase the capital efficiency by increasing the return of capital employed. Even this major change is a manifested by all interviewees, they still differ in opinions regarding the innovation pace of Skanska Oresund's business model. Thus, according to the managing director (MD) of the company, innovation of the business model happens on each stage of the project development process (value chain) and with every new project. "So we don't have to reinvent the whole business model or to be innovated and developed, we actually do it every day, in every project in every part of the business model" (Wieslander, 2014). However, the business developer of the company has an opposite opinion and says that business model has not assumed a major change for the last 7-8 years but just refinements "No, I don't think so. It has been fine-tuned, but not changed" (Lundberg, 2014). By saying refinements, he refers to some adjustments related for example to how the customers are approached, some additional services offered to customers when defining their needs for a new office, strengthening of the communication between Skanska Oresund and Malmo Municipality about the overall city plan and thus forming closer partnership with Municipality, etc.

### *Perspectives on Necessity of Business Model Innovation*

We collected diverse opinions as to necessity of business model innovation. A project manager from Skanska puts under question the need of change of the business model, in terms of introducing new services not previously offered by Skanska. He argues that it could be done only if there is a guaranteed profit. "I don't think that this should be an option. I don't think that the outcome is that big" (Persson, 2014). Andersson (2014), working with leasing agreements, mentions about first mover disadvantages and argues

that it is not always best scenario to be highly innovative: “Yes I think we can change but I don’t really think...I am not sure that it is the right thing, not sure if it’s necessary to be in front. It’s not always best to be in front”. The managerial director (MD) also shares similar opinion about business model change and says that it is important to adapt the business model, but the question is not always about business model innovation : “We don’t always need to change the business model in order to create value” (Wieslander, 2014). As Persson (2014), a project manager in Skanska, points out “I don’t view Skanska as being very innovative as overall, but perhaps we are compared to other construction companies or real estate companies”.

### *Value proposition*

As value proposition is part of the business model components, according to Osterwalder’s nine building blocks (2010), we would like to stress out the perception of Skanska’s employees about current value proposition of the company, which is highly associated with their understanding of Skanska Oresund’s business model. Interestingly, there are different opinions among the employees of Skanska Oresund regarding the actual value proposition offered. Thus, according to the managing director, the company offers not just an office space but a “workplace. A “workplace” refers to a product which is not just an office space, but also means that Skanska helps its customers to design and arrange their offices and to equip them with everything needed in order to support their business. As it was said “this is like the difference between house and home”. “We offer to be a partner and to provide whatever they need to create a good business, but around our product” (Wieslander, 2014). However, the business developer of the company has slightly different opinion about what is the company’s existing value proposition. According to him, Skanska is far away from offering a “workplace” product as integrated part of its business model. He says that there is a willingness Skanska to offer integrated solutions and “workplace” but it is not yet fully implemented and done on a regular basis. “We offer them, as of today, office space. In some cases we could say that it is a workplace, but I would say we are somewhere in the middle to be able to define it as a workplace. It is more strategy as of now, it is not that implemented in the actual organization” (Lundberg, 2014). Another of our interviewee working with leasing contracts and tenants sees the product offered as

“office space, good work environment and high status”. A project manager from the company argues that they provide to its customers not only product but also a service, referring to activities like maintenance of the office premises (Persson, 2014).

#### 4.2.2 Factors Influencing the Innovation of Business Model

##### *Return of Capital Employed*

In past fifteen years, Commercial Development Unit (CD) of Skanska AB increased financial targets, aiming to employ capital most efficiently i.e. increasing capital efficiency. With financial targets and measurements being changed, the whole CD group changed its business model. More precisely, CD’s key activities changed from being both project development and property management company, into project development company solely, thus being able to focus on its core expertise and to increase the return of capital employed. CD’s key resources thereby also changed from property owned into capital earned out of selling property. Skanska Oresund, as part of Commercial Development Nordic, therefore assumed this change to align with the overall framework of Skanska AB. “Our major change in the business model is when we change from property owner to property developer. Then we actually extended the business model by including “exit” step in the process. So we can say that this is the biggest shift in our business model (Wieslander, 2014). The new business model has been fully applied from 2013, since selling more than 100 properties, which Skanska Oresund owned before, took some time. “Our business model has changed in past fifteen years dramatically. Because we used to be real estate company owning a lot of properties and managing them. And nowadays we build and sell and own very few properties. In that way we changed.”(Persson, 2014)

##### *Competition*

Market conditions, and particularly the competition has been stressed out by the managing director as a factor influencing the decisions of Skanska. “And if the competitors offer just an office space, then we have a business opportunity to offer something more” (Wieslander, 2014). One of the project managers stresses out the fact that, although Skanska has strong position on the market, the competition is getting

harder and harder and that company should consider new business opportunities (Persson, 2014). In general all employees agree that competition is a factor which should be considered, but in same time they all communicate strong confidence in company's leading position and are not worried too much about competitors. As support to this confidence, according to information from the business developer, Skanska possesses 25% of the market of new office buildings in the region of Malmo and considers this as a good share guaranteeing a leading position.

The business developer, in alignment with the other opinions, is also not worried about the competition coming from other construction companies or real estate companies. "Skanska is proud of being a market leader and has confidence that it outstands from competitors". Nonetheless, he stresses out that there is a competition coming by companies from other industries, which compete for the same limited budget of the tenants, designated for facility management. Therefore, he thinks that this kind of competition makes the company aware of a need to change its business model. "So we must be aware that from the total budget of the companies, there are others that say you should spend more in other fields, for example in IT solutions, and it is from the same budget" (Lundberg, 2014). For example companies from the IT industry and consulting companies trying to have a greater part of tenants' budget. "If you look from Microsoft or IBM perspective, they would argue that you should spend more money on the IT part and not the property part" (Lundberg, 2014).

### *Sense of urgency*

Business developer points out that Skanska Oresund lacks a sense of urgency for pushing them to be innovative. "People don't think that there is a real risk for the company because the company has been existing for 125 years and will probably exist 125 more (Lundberg, 2014). "The business is running very good and there is nothing to alarm" (Lundberg, 2014). Another interviewee working in the leasing department argues that there is no extreme need to change and innovate, "...not sure if it's necessary to be in front. It's not always best to be in front. Sometimes you just need to do basic things and not to be innovative" (Andersson, 2014). As overall employees of Skanska think that the company is doing really well and there is no extreme need to be more innovative. They are satisfied with the market position of the company and feel

confident in the strength of the company. Persson (2014) points out that company operates in conservative business and as overall might not be very innovative, but compared to the companies in construction industry, he thinks that they are quite innovative.

### *Customer expectations*

One of the principles for Skanska Oresund, as a part of CDN, is to work tightly with its stakeholders, including its customers, e.g. tenants. Skanska Oresund is making effort of creating a workplace for supporting tenant's business. In this sense, the expectations from customers' side would be determinant whether the current business model could satisfy the need or require a change. Besides, all interviewees state that Skanska Oresund is a value-driven company, focusing on customers' values (Wieslander, 2014; Persson, 2014; Lundberg, 2014; Andersson, 2014). "The way we can add value is when we design a house, in that way we could contribute to make the house as efficient as possible, as many square-meter as possible" (Persson, 2014).

As a matter of fact, customers' expectations for office-space and property have been evolved with the technology advancement and some new standards for the working place, and they work as a driver for Skanska to be conscious for the changes needed in its business model. For example, notable IT companies as Google and some consulting companies has leveled up the concept of office-space design by enabling their employees to work more creatively. The new concept for office space have made Skanska to see a need to create and deliver more value to fit in customer's higher expectations. Besides, a project manager states that customer's expectations are most important for Skanska. He argues that sustainability and environmental solutions are becoming part of customer's expectations as well. "...sustainability and environmental solutions, this is part of customer's expectations in some way" (Persson, 2014).

Another opinion says that customers have different needs and expectations and thus it is difficult to offer one universal product. So Skanska needs to address different needs of different customers (Andersson, 2014). Interestingly, the project manager says that Skanska's offering is sometimes more than customer's original expectations with the purpose of attracting more customers. Thus for example the activity based office is something that Skanska is trying to promote to its customers and to explain what are



the advantages of it.

Another side of customers' expectations is concerned with the leasing contracts. From one side are the tenants and their desire is to have as short as possible leasing contracts since future is unpredictable to some extent and they don't want to sign long contracts. On the side are the investors, for which longer leasing contracts mean stability in long-term.

### *Sustainability*

Skanska makes great effort to develop projects which live up to the standard of green-building and pursues environmental sustainability. That is, Skanska continuously contributes itself to build projects with sustainable characteristics. The company is willing, within the next few years, all projects to meet the highest standard for green building technologies - LEED platinum. In same time, more strict regulations and the aspirations of the company have also impact on Skanska's business value chain. For example it has to make comprehensive communication as to overall city plan with Malmo Municipality in the phase of project-planning and getting permission. Later on, in the phase of construction, Skanska Oresund carefully chooses its key partners who supplies green-building materials. "As to value proposition, our offering to tenants is "to be a partner and to create and offer their new workplaces to support their business" as well as "how to solve their work environment, their needs, work processes, location, quality, sustainable solution in their new office" (Wieslander, 2014). And the offering to investors is "fully developed properties which is a sustainable investment, secure operating net over time" (ibid, 2014). Sustainability factor is not only part of the legislation, but also becomes part of customer's expectations and beliefs for a modern office. What is more, as to sustainability, it is not only about construction techniques and materials. Sustainability refers also to the way a building is used and to the long-term exploitation of the premises with having minimal impact to the external environment.

### *Culture*

Overall, it's agreed that Skanska Oresund has a culture for discussing and sharing creative ideas. Besides, CDN also holds workshops in routine for companies operating in different regions, to have opportunities to share information and exchange ideas with

each other. Nonetheless, whether this openness leads to innovation in business model itself is differently stated in the interviews. MD stressed out that Skanska Oresund was the first company in CDN who decided to change the design of office-space into Activity-Based Workplace approach, where they achieve a reduction in office area by utilizing the premises more efficiently, with the purpose of creating a more valuable environment and greater cooperation and creativity. The essence of activity based workplace is to create different “corners” in the office whose design is tightly related to the activities performed there (e.g. silent corner, meeting area, relaxation area, etc.) In practice, this change specifically improved Skanska’ communication within the company itself and with its customers. As it was stressed out by one of the employees the activity based office would not have any effect if there was no cultural change before that: “you first have to change your behaviour and thinking and to become more open and then the activity based solution, as a complement, fostered the creativity, knowledge sharing and cooperation between people here” (Andersson, 2014). The change, receiving significant positive feedback from customers’ side, was also adopted by other companies such as Skanska Stockholm. Culture was also mentioned by a project manager as related to inertia and routines rigidity in the company. “And that is the culture in Skanska, because many employees have been with Skanska for many years and the way of doing things is routed in the walls” (Persson, 2014). Culture was mentioned also by the business developer of the company by indicating that culture hinders in a way the implementation of new things and the development of the value proposition of the company: “And today it is not the case. It is not in the culture of us to do these extra things”. “it is an old company and big company, it is the culture how you behave and these are things hard to change” (Lundberg, 2014).

### *Inertia*

Interestingly, the perspectives about inertia are quite diversified according to different levels of interviewees whose focus to value-creation can be put differently: the Managing director (MD) level holds quite positive that the company could only survive by being open and adapting to continuous changes in dynamically changing market. MD claims that as long as there is a need for making a change in Skanska Oresund’s business value chain, the necessary activities would be taken to reach the goal.

Consequently, there is no inertia in the company, according to her.

In contrast, the inertia issue is stressed out by the business developer whose main duties are related to leasing out the office-space in the building and looking for new business opportunities. One phenomenon described was that employees continue doing what they have been always doing and what they are mostly familiar with, based on which have created past success and already built up brand-name and credibility on the market. "...you tend to do what you have been doing before and it is hard to change direction" (Lundberg, 2014). In other words, the cost and obstacles as to re-allocation of resources and management of different procedures would be spontaneously avoided. For example, within CDN there are routinely-held workshops for creative and inspirational discussions e.g. what could be done for creating, capturing and delivering more value to customers. However, the creative ideas are rarely further developed and implemented outside of the workshops (Lundberg, 2014). The inertia factor has been also confirmed by a project manager in the company.

### *Leadership*

As mentioned earlier, many workshops are held in routine for discussing and sharing creative ideas, strategies, or solutions. But many ideas concerning the leasing activities and value-stream solutions, would stay only in workshops without being further developed. That is, only few of them are implemented in practice. One argument highlighted was the *lack of champions*. It seems that without top-down decision or past success guaranteed, there are lack of people willing to lead the changes for implementing or trying out new, creative ideas. Besides, there is also no team or no formal division in company being in charge of new products development or any kind of innovations . At this point, the lack of spirit for tried-and-trial is also reflected. Andersson (2014) confirms that there are not always people able to lead the changes discussed. "And in fact this doesn't work in practice and there would be nobody for example being in charge of leading the change". In same time another employee supports the fact there are no people to lead the changes " I think because no one is leading the changes" (Andersson, 2014).

As to the leadership style in the company, the managers are supportive and try to empower and coach the people. Knowledge sharing and cooperation are highly

appreciated and stimulated. The leadership style is strongly supported by the flat structure in the company, thus making the communication between employees open and not being dependent on the hierarchical level. However, the company does not maintain a formal rewarding system and in fact there is no extrinsic motivation for employees to be creative and innovative.

### *Cost of Project*

Skanska Oresund positions itself to well serve the most demanding clients. It means that each project is firstly aiming at high-end tenants who require high quality workplace that supports their business as well as investors who require sustainable building that can bring in secured income (Andersson, 2014; Persson 2014. Lundberg, 2014) . With that being said, it is acknowledged that each of the commercial construction project is extremely costly to build. Thereby, the company also focuses significantly on risk-management along the whole process of business value chain from beginning to end. Therefore the already proven-successful solutions and concepts weigh significantly in making any decision in new project. More precisely, the cost of projects influences company's behaviour in terms of implementation of new technical solutions or new products and services. Experimenting with a project for several millions of euro, is not part of company's strategy and consequently characterizes the organization as risk-averse and not adherent to tried-and-trial approach. "Since you are new to something, you make mistakes and it costs you money" (Persson, 2014). On the other hand, increasing costs of building projects also propel the company to be conscious of finding new ways to create more value and generate greater income flow (Lundberg, 2014).

### *Risk-aversion*

Skanska pays significant attention in avoiding unnecessary risks in every decision made. This risk-aversion results in less will to innovate its business model. The company prefers to rely on its past experience for profit generation and to apply solutions which have been already justified. For example, in choosing the location for developing a project, Skanska only considers highly attractive locations surrounded with mass public transport. "We chose the safe way. It is very important to be close to public communications, it is safer to be there" (Andersson, 2014).The reasons behind this

behavior include the cost of the project, being extremely high, and the aim to attract high-end tenants with top location of the buildings. The risk management has been pointed out by a project manager as being one of the main priorities for the company. “We can have risks, but we have to control them”; “...if the money is good and risk is acceptable, then you will be allowed to do it” (Persson, 2014). The project manager insists that “value could be created by eliminating the risk” (Persson, 2014). The risk management is mentioned many times also in the annual report of Skanska AB, thus highlighting again its importance (Annual Report 2012- 2013).

As to the application of proven concepts the “*create success story*” notion emerged from our empirical data. This would serve as a proven concept which could be applied in different projects. “So what we can do is to create this success story and that is something that I can do” (Lundberg, 2014). Skanska, supported by international brand name, enjoys great success in its local market with the past accumulated experience. It’s believed that past knowledge and experience contribute to the continuously profitable projects. Consequently, it also strengthens employee’s belief that traditional approach in most case would be appropriate. As the business developer points out, it is hard to change the thinking and culture of the people, so he suggests that a good approach to do so could be to give a good example how it should be done.

### *Capacity and Resource Allocation*

Project manager stresses out that employees are fully occupied with their daily assignments. That is, heavy workloads for running daily operations hinder employees’ capacity from being able to investigate new business cases for potential change in their business model. “I think also you need to realize we have heavy workloads, so that heavy workloads not allow you entering into new business cases. And I think that is because we are too busy for what we should do, so we don’t really have time for looking into business cases” (Persson, 2014) . Lack of time was also highlighted by employees not only from Skanska Oresund but from all companies within Commercial Development Nordic unit, in an earlier health audit study held in the company (Enev and Wei-Chen, 2014).

As to the profiles of people working in Skanska Oresund, a few people stresse out the fact that most of the people working in the company have civil engineering background

and there are no business people. This low team diversification is highlighted to be a weakness and probably influencing company's performance and business solutions by hindering the company from deploying its full capacity. In same time the people working in Skanska are identified for being the most valuable resource of the company. For running its business the company relies to a big extent to the skills of its employees. "People here are very important. If I loose any people here this would cause big difficulties I would say" (Wieslander, 2014).

Another side of resource allocation factor is the financial strength of Skanska Oresund. The company, being part of the international conglomerate Skanska AB, has enough resources to invest in new projects and to further develop its business even in new directions. Skanska Oresund can also rely on international expertise from the other companies within the structure of Skanska AB.

## 5. Analysis and Discussion

In the following chapter we will analyze our findings in regards to the research question in the context of construction industry sector, and will make juxtaposition of the findings with extant literature in order to identify potential clashes or mutual support of concepts. We will first discuss our findings in regards to general understanding and definition of the business model and its role in company's operations. This will serve as a basis for our further analysis. Then we will focus on the factors, both drivers and barriers, being identified as having major impact on the business model innovation, and factors not being discussed in literature but emerging from our empirical data. In the end we will analyze how these main factors interconnect each other and how they interplay in regards to business model innovation.

### 5.1 General analysis

#### *Business model*

As we already pointed out in our findings, the employees in Skanska Oresund give different definitions about business model. Different definitions regarding business model can be found also in literature. As Zott et al. (2011) argue, researchers differ in

their opinions regarding different aspects of business model. Scholars do not agree on what a business model is and researchers often embrace definitions that fit their purposes. Thus for example the managing director, whose job requires to have an overall understanding of all stages in the project development process refers to the value chain as a definition of the business model of the company. The business developer of the company claims that business model is mainly concerned with leasing and divesting activities and a project manager sees it as to “what and how”. Similar to what Zott et al. argued, people from Skanska probably give definitions which fit their specific jobs. The different understanding of the business model of the company will probably influence people’s opinions regarding business model innovation, current value proposition and factors influencing innovation of the business model.

As to the purpose of the business model employees have similar understanding. All employees in Skanska see the business model as a mean to create value and profit, respectively for customers and Skanska. In this regard there is overlap with literature. Chesbrough (2010) argues that business model “Articulates *value proposition*”, or “Identifies a market segment and specify the *revenue* generation mechanism”. Amit & Zott (2001) suggest that the business model could be defined as “the content, structure, and governance of transactions designed so as to *create value* through the exploitation of business opportunities”

### *Business model innovation*

It seems that people from Skanska have different perceptions for business model innovation, exactly as researchers differ in their opinions on this topic. Sako (2012) insists that business model innovation can be subjected to continuous and incremental changes. Frankenberger et al.(2013) suggest that business model innovation is achieved through a change of one or multiple components in the business model. And Cavalcante et al. (2011) talk not about business model innovation, but for business model creation, extension, revision and termination.

First of all, the understanding of the people for business model innovation might be influenced by their perception of what a business model is, as already stressed out above. Second, people have different background, the context of their jobs also differ, and this undoubtedly influence their view points. Some people work more with

customers and are more market oriented, and others deal mainly with internal processes and procedures. The managing director for example, needs to have an overall overview of company's activities and other people in the company need to focus on their specific fields (e.g. marketing, leasing).

### *Perspectives on Necessity of Business Model Innovation*

Another interesting discussion related to business model innovation emerged from our research. Johnson et al. (2008) argue that established companies should not undertake business model innovation lightly, as they can often create new products that disrupt competitors without fundamentally changing their own business model. They further point out that business model innovation wouldn't be necessary unless the risk would guarantee the benefits. Similarly, a project manager from Skanska puts under question the need of change of the business model. He considers that the change of the business model does not give answer to everything. Other employees also do not see a lot of arguments for being more innovative in regards to the business model. Simply, the company performs "really well" and there are no threats about the company. The managing director also says that the business model change is not an universal cure. The company probably should focus on its core activities and not thinking so much for offering additional things. On the other hand, some authors argue that business model innovation is critical for companies' success. Sako (2012) suggests that even without novel technology, new business models can be central to ensure business success. Other studies propose that business model innovation works as a vehicle for corporate transformation and renewal (Demil & Lecocq; IBM Global Business Service, 2006; Christensen & Kagermann, 2008).

In the end, innovation, including business model innovation, should be regarded into the specific context that companies operate. Thus companies' innovativeness should not be compared to other companies in general, but to companies from same industry (Kuratko et al., 2011). Similar opinion expresses a project manager from Skanska, insisting that Skanska is quite innovative compared to other construction companies.

Johnson's (2008) advice should be taken into consideration and innovation in the business model should happen only when there is a real need for it, since innovating the business model brings risks as well. As Frankenberger et al. (2013) argue



companies should also think about integrating all pieces of the business model in one, since changing one piece might be easy but integrating it and aligning with the rest of components might be difficult.

### *Value proposition*

As seen from the findings, there are different perceptions for the current value proposition of Skanska Oresund. The opinions differ mostly about the extent to which the value proposition has evolved. One opinion says that the company offers just an office space, but other opinion in same time argues that it is not just an office space, but a “workplace and partnership for whatever are customer’s needs”. Other employees say something in between. As to the different understanding of the business model of the company, these opposite opinions regarding the current value proposition might be due to the specifics of the jobs of each of the interviewees and consequently different involvement in the actual process of product offering. For example the business developer of the company is directly involved in the product offering and carries out many customer meetings, while the managing director is more involved in the overall management of the company. Anyhow, despite the different job responsibilities this discrepancy appears strange in the context of a company having 20 employees.

### *Factors influencing business model innovation*

As to the factors influencing business model innovation, extant literature discusses mostly the barriers hindering business model innovation. However, with the explorative model employed, the factors are divided into drivers and barriers. First, this approach would allow the authors to more clearly present the direction of influence of the particular factors, either positive (driver) or negative (barrier), and second, it would facilitate the exploration of the relationships between factors and their simultaneous influence on the business model. As already has been mentioned, the literature discussing the factors having an impact on business model innovation is limited. From our empirical data many new factors emerged and they will be further discussed in this chapter.

## 5.2 Drivers and Barriers influencing business model innovation

### 5.2.1 Drivers for Business Model Innovation

#### *Return on Capital Employed*

Around 2000 Skanska Oresund, as part of Commercial Development Unit of Skanska AB, assumed a major change in its business model. From property management and project development company, Skanska Oresund turned into a solely commercial property development company. Simply saying, Skanska Oresund plans, builds, leases and sells workplaces. This change happened according to a decision at Skanska AB level, with the clear objective to increase the capital efficiency i.e. to employ capital in most efficient way. As of this moment, the company focused its main activities in developing property projects, which after their completion were usually sold out. In financial terms, the most important measurement under this objective is upon “Return on Capital Employed (ROCE)”, set as 10-15% by Skanska AB (Skanska Annual Report, 2013).

The financial targets, as of a bunch of measurements (mainly on ROCE target), overall wield its impact for changing company’s business value chain. Besides, one of the key resources of Skanska Oresund also changed from properties owned and rent income into project transaction income. In this sense, the financial targets and its associated measurements work as a driver for changing the business model.

On the other hand, whether Skanska Oresund could have capital from AB for developing new projects would be highly dependent on successful sales of its past projects. As a result, past successful experience is rooted in Skanska Oresund’s culture, thus ensuring that financial targets are met. The financial targets or the targeted return of capital employed was the only factor who in fact provoked a major change in the business model of Skanska for the past 15-20 years.

#### *Customer expectations*

One of the most important principles for Skanska Oresund is to live up to the expectations of customers, that is, to offer workplace that supports the business activities of its tenants and to provide sustainable property which meets expectations of the investors (Wieslander, 2014). The company also identifies itself a value-driven

company, meaning to create value for its customers is more important than to minimize the cost. (Wieslander, 2014; Persson, 2014; Lundberg, 2014; Andersson, 2014). In this sense, Skanska Oresund is highly conscious of whether the value created meets customer's expectations. For example, to investor, building with a flexible framework implies not only low risk of future turnover of tenants but also increased extra rent out of extra square-meters deployed. Besides, if investors require green building or sustainable solution, Skanska Oresund needs to consider some changes in different stages of the business value chain, such as designing, planning, constructing etc. Moreover, the selection, communication, and collaboration with its key partners would also need a change. For example, it needs to collaborate with suppliers providing materials needed.

Skanska Oresund has a strategy for customers segmentation, meaning that the company understands the different needs of its customers, depending on their size or industry, and thus tries to offer a customized or a tailored product. Nonetheless, one challenge for meeting customer's expectation is in balancing between tenants and investors, the two main customer groups. Since tenants prefer short-term leasing contracts while investors are interested in having property secured with more long-term leasing contracts, Skanska faces difficulties in designing the contracts with more flexible leasing terms. The opposite nature in customers' expectations limits Skanska Oresund's flexibility to innovate its business model in the leasing part.

It was acknowledged that Skanska Oresund's offer sometimes exceeds customer's original expectations for an office space. The intention is to attract customers and make them believe that Skanska Oresund is open-minded and leading on market. On the other hand, due to new standards set up by other high-end companies, even from other industries, Skanska needs to deal with the fact that customer expectations for workplace level up. This would work as a reminder for Skanska that change is the way to outcompete, especially in regards to customer expectations since this is one of the major drivers having influence on decision making of the company towards innovation of the business model. Meeting or even exceeding customer's expectations is the only way for the company to ensure that high-end customers will remain its customers in future

### *Competition*

Skanska Oresund, strongly backed up by Skanska AB in terms of international brand-name, construction expertise, value network, and financing, stands among market leaders in Malmo region. Skanska Oresund's commercial projects meet high-quality standards and target at high-end customers. So, brand name and construction expertise are probably the major assets that help Skanska Oresund to be among the leaders on this market. Similarly to the argument that business model innovation would be necessary to respond to competition in some cases (Johnson et al., 2008), the interviewees claim that even standing as a market leader, the intensive competition in the construction sector make them be aware of that the company needs to explore new business opportunities for outcompeting on the market. Nonetheless, some authors also argue that companies should undertake business model innovation only when the opportunity is large enough and well justified. In alignment with this opinion, a project manager from the company expresses his concerns that enriching the value proposition by adding additional services, might not be worthy because they could not bring enough profit and thus could not justify the change of the business model. Therefore, for Skanska Oresund to outcompete on the market does not necessarily mean to innovate its business model. This opinion contrasts to the argument that companies should innovate their business models in order to keep their competitiveness (Bouchikhi and Kimberly, 2003, Amit and Zott, 2010; Amit and Zott, 2012; Chesbrough and Rosenbloom, 2002; Amit and Zott, 2010; Christensen & Kagermann, 2008).

The company comes to realize that it faces more and more fierce competition not only within construction industry but also from other business fields. Thus, as the MD stresses out "change is the way to survive". Offering something new and exceeding competitors' offerings become Skanska Oresund's motto. Consequently, competition is undoubtedly influencing the company to make a change in its offering. Nonetheless, for Skanska Oresund the change in offering includes exploring business opportunities by changing its business model, or it could be realized by simply building up a better quality project than competitors without business model innovation.

### *Sustainability*

Environmental responsibility is a core value for Skanska (Skanska Annual Report,

2013). To offer both tenants and investors sustainable solutions and buildings, Skanska Oresund would have to make adjustment through each phase of its business value chain for reaching this target. More precisely, the efforts put in planning and designing, the resources put in research and development, the communication and collaboration held with Malmo Municipality, the choices made to select key partners, and the approach to reach to its customer segments and promote such sustainable solutions and buildings, could in fact require changes and innovation in its business model. Therefore, sustainability is a core value of the company, even not being identified explicitly in past literature. It works as a critical driver for Skanska Oresund to innovate its business model.

### 5.2.2 Barriers for Business Model Innovation

#### *Risk-aversion*

Risk-aversion, as self-explained, works as barrier for companies in innovating their business models. This feature is manifested in almost every dimension of Skanska Oresund's business model. Especially in the early stage when Skanska Oresund invests in land, as key resource, where only top locations would be considered (Andersson, 2014; Persson, 2014). It is due to the fact that the final value of commercial project, for both tenants and investors, would be highly associated with the location. Skanska therefore invests in land highly discreetly. As to the approach of generating revenue in its projects, Skanska Oresund most of the time follows past experience and counts on proved solutions before throwing itself into new field (Lundberg, 2014; Persson, 2014). Moreover, the trust-tie built up among company's network and the principles it pursues, i.e. sustainability, could also be tightly connected to the risk-aversion characteristics of the company. Last but not least, the substantial financing for development of new projects could be only achieved through successful realization of past projects. Consequently, the risk-averse approach stops the company to some extent from adapting or exploring new business opportunities since they also bring some risks (Persson, 2014; Lundberg, 2014).

### *Cost of Project*

Skanska Oresund spends significant amount of money on each project in order to meet the most demanding clients' expectations and outstand on the market. The huge costs have incurred three effects regarding its business model innovation. First, Since Skanska Oresund earns capital from Skanska AB to develop new projects and it has a lot to do with successful completion of past projects. Thus, the huge costs of projects intensifie company's risk-averse approach in decision making process along each stage of business value chain. Since risk management is central to Skanska Oresund's daily operations, the huge project costs thereby have hindering effect on business model innovation. Second, because of the high project costs, the company has limited room for exploring new business opportunities in brand new fields. In this sense, without a successful story or established experience, Skanska Oresund does not employ tried-and-trial approach. Consequently this factor overall hinders the company from innovating its business model.

### *Capacity and Resource Allocation*

Extant literature points out that the capacity as to identifying external change-drivers, managing partners within network, integrating all piece of business model in one, would be determinant (Frankenberger et. al, 2013). In Skanska Oresund's case, we find that capacity and resource allocation could be discussed in terms of human resource pool within the company, exploring how their capacity is aligned with the business model of Skanska AB as well.

First, heavy workload of employees in fact implies lack of resources and time put in investigation and identification of new business opportunities. Hiring extra personnel would increase operating cost and should be carefully calculated beforehand (Persson, 2014). Second, business developer also suggests that business cases investigation should be conducted by Skanska AB and the holding should make sure that they could be implemented by Skanska Oresund (Persson, 2014). Currently it is not a practice in Skanska Oresund nor in Skanska AB.

### *Sense of Urgency*

There is general consensus among employees in Skanska Oresund that since the

company is standing leading status on the market, the change or innovation as to overall business model is less necessary nor among priorities in order to outcompete. In other words, the lack of sense of urgency for changing the business model is part of the characteristics of Skanska Oresund. The phenomenon is not only displayed because of the confidence in being leading company in the industry for long time, but is also strengthened by past successful practices and experience. As it was said, the company is performing really well and there is nothing to alarm. Nonetheless, the business developer did stress out his concerns about this phenomenon, that it could hinder the company from being more innovative as well as could stop it from exploring more business opportunities.

### *Culture*

Culture is probably the most overall factor among all others. Due to that some factors as inertia, leadership, risk-aversion, and sense of urgency could be connected and influenced by the overall culture in the company. The change of culture could result in company being more open and thus decreasing risk-averse orientation or inertia. According to extant literature, company's culture is determinant for the extent of innovation and without cultural change first, all other efforts for having in place a renewed business model might be waste of time or at least would happen much more difficult (Chesbrough, 2010; Sosna et al., 2010). Thus, Chesbrough (2010) continues by arguing that organization's culture must embrace the new business model and in same time to support the existing one. Obviously people in Skanska Oresund realize the importance of this factor and admit that the company has a culture which fosters knowledge sharing and open communication within the organization, but in same time feeds risk-aversion and hinders innovation activities, including business model innovation initiatives. On the other hand, we could argue that this type of culture is appropriate for existing market conditions. As it was revealed in chapter four, construction and real estate markets are conservative markets and it could be that investing more resources in business model innovation would not guarantee more profit or a confirmative success and therefore might not be worthy.

### *Inertia*

Inertia, identified barrier for business model innovation in extant literature, also is proved in case of Skanska Oresund to have a barrier effect for innovating its business model. Since employees feel familiar with the existing routines, procedures, and structure under the current business model, they continue to follow past routines which proved their efficacy in creating value. Intriguingly, top level management has different view from middle-managers. Managerial Director regards that inertia does not exist in Skanska Oresund since according to her changing is the way to survive. The examples set for us as a change include the way they work from more separation-oriented to collaboration-oriented, and the Activity-Based Workplace approach is initially implemented in Skanska Oresund as first-try to enhance its own working environment and improving how the company communicates with its potential customers. The overall revealments for inertia in the company overlap with literature. Holmen and Fallahi (2013) argue that the structure and procedures created to support the current business, cause difficulties in company's innovation activities.

In all, we see two different opinions about the significance of inertia in terms of the level of impact and associated understanding of how company creates value.

### *Leadership*

The meta-capabilities for leaders to support and bring forth the business model change in an organization is highlighted in literature (Chesbrough, 2010; Morris et al., 2005; Chesbrough, 2010; Doz and Kosonen, 2010). Through interviews, we come to understand that Skanska Oresund is open to some extent for trying out new things (Wieslander and Persson, 2014). But when it comes to practically innovate or change current business model, the conclusion is rather ambiguous. More precisely, the leadership for pushing innovation in business model should be observed with few facts and factors. First, the decision of Skanska AB-level (CD), turning itself from a property manager into a project developer, already set the overall framework of Skanska Oresund. Skanska Oresund, even operating in relatively high discretion, might only be able to change minor things in order to pursue greater profit. Second, the capital for investing in new projects is largely dependent on past sold projects. Thus, risk-averse characteristics would have great impact on whether to lead a change in business model



to generate profit. Third, following the second point, all interviewees manifest that the stage of investing in land with good location, and planning and designing phases of the project, are of significant importance for developing commercial project. It means that they overview the market with their abundant knowledge and experience and admit that there is great chance to create more value through choosing a top-location, as well as innovation in product i.e. office-space design without reacting to whole business model. This reflected the argument from Johnson et. al (2008) that business model innovation should be pursued only when company is confident that the opportunity or the justification is large enough to warrant the effort. Fourth, the fact that Skanska Oresund is currently a market leader in the region of Malmo, could strengthen company's belief in following past success.

In all, the lack of champions to lead and support a change in business model could not directly implies that it is a factor hindering company from changing its business model. Similarly, the lack of sense of urgency should also be overviewed together with the reasons above. At the end, leadership could not be regarded isolated, since as already revealed, there is strong connection with company's culture.

As seen from our findings and analysis, the empirical data from this case study revealed new factors having impact on business model innovation, which, to our knowledge, have not been discussed in literature. New factors identified as having impact on decision making towards business model innovation, both barriers and rivers, are *return of capital employed, sense of urgency, customer expectations, sustainability, risk-aversion, cost of project*. In same time two of the factors discussed in literature, were not confirmed in our findings. These are *organizational structure* and *technology*. It does not mean that they do not exist at all, but that do not have significant influence and have not been considered as important by employees. The table below gives a clear overview about the overlap between factors from our findings and literature.

Case study	Literature
Return of capital employed	-----
Customer expectations	-----
Competition	Competition
Sustainability	-----
Risk-averse	-----
Cost of project	-----
Capacity and Resource allocation	Resource allocation
Sense of urgency	-----
Culture	Culture
Inertia	Inertia
Leadership	Leadership
-----	Organizational structure
-----	Technology

In total 11 factors have been identified as having impact on business model innovation of the company. Some of them play more important role than others. They could be drivers or barriers, and external or internal factors. Based on our analysis, the ones that we consider as having major role in decision making towards business model innovation are *return of capital employed, customer expectations, competition, cost of project, risk-aversion, culture and inertia*. In fact, return of capital employed and customer expectations are the main drivers for company to innovate its business model. And culture, inertia, risk-aversion and cost of project have been identified as main barriers in the specific context that the company operates.

### 5.3 Interdependence of the factors and influence on Business Model Innovation

#### 5.3.1 Industry and Company Specifics

In last section we acquired knowledge of the essence of each factor, in terms of drivers and barriers, which influence business model innovation in Skanska Oresund. We also revealed what are the most important factors having outstanding weight in the company. In the following we will explore how these factors influence business model innovation and their interdependence, focusing on the main factors mostly.

With data collected, we understand some intriguing features of Skanska Oresund as a

construction and project development company as well as characteristics of construction industry. These few facts would facilitate the understanding of the interdependence between different factors. That is, before delving in how do factors, both drivers and barriers, influence the business model innovation in construction industry, we need to stress out again some construction and company specifics, which have influence on how these factors interplay with each other.

First, as a part of Skanska AB group, Skanska Oresund's business model is inevitably influenced and to some extent limited by that of Skanska AB. Being backed up by Skanska international brand-name and resources, and operating locally in developing projects with its specific market knowledge, Skanska's values and principles such as central to risk-management, sustainability, customer-centered and value-driven approach, would be undoubtedly embodied in each of Skanska Oresund's projects. Skanska AB's traditions, ethics, and core values influence significantly the overall operations of Skanska Oresund. Second, for both tenants and investors, location of project would represent one of the most critical value indicator. Besides, the workplace design for tenants and the flexible construction framework for investors would be taken as important consideration when tenants seek for ideal workplace and investors require secure and sustainable long-term investment. The location selection and inner-house framework design for example, playing significant role for the ability of Skanska Oresund to successfully lease and sell out projects, could actually be done without a change or innovation in business model. Third, Skanska Oresund stands 25% of market share of new office buildings in the region of Malmo, and has been viewed as one of the market leaders for more than 125 years in this industry. Fourth, the construction and real estate industries are unbiasedly acknowledged by all interviewees as traditionally conservative-oriented markets. With these facts stressed out as a basis, we can see now how the factors identified influence Skanska Oresund's business model in practice.

### 5.3.2 How Do Main Drivers Influence Skanska Oresund's Business Model Innovation

Main Drivers: *return of capital employed, competition, customer expectations, and sustainability*

According to our findings, the most substantial driver for Skanska Oresund to change its

business model is the financial target of the company. More specifically, the company aims to increase the “*return of capital employed (ROCE)*”, which is one of the main measurement for company’s performance. This factor significantly affected the business model of the company, pushing it to shift from property development and property management into property development company solely, accompanied with change and adjustments of all the other important components of business model. In fact, ROCE is the factor having the biggest impact on the only major change of company’s business model for the last 15-20 years.

Other important drivers include *customer expectations, competition, and sustainability*. *Customer’s expectations* is accounted as one the most important factors for the company in developing projects. It is tightly connected with Skanska’s good name and associated with its existing customers. Precisely, tenants expect tailor-designed workplaces that support their business as well as trustworthy service offered by Skanska, and investors expect sustainable property that brings in secure income. The evolved and leveled-up customer expectations drive the company into a change of its value proposition by enriching it and thus driving a change in its business model. These changes could be characterized as incremental changes and did not lead to any major change of the model as the financial factor.

As to *sustainability*, pursuing green and sustainable environment is one of the important values of Skanska Oresund. Besides, considering the global trend and concerns for sustainable environment, the customer could also be more demanding while requiring a green-building or sustainable solution in order to decrease exploitation costs. Developing sustainable project would possibly result in a change and innovation in every phase of Skanska Oresund’s business model, from designing and planning through constructing, to leasing and selling to customers. Adding new key partners is from substantial importance to respond to sustainability requirements since new materials should be used in construction activities. Therefore sustainability is a driver with more and more important weight but still affecting the business model incrementally rather than substantially.

As to *competition*, the driving role it plays is more of ambiguous. On the one hand, Skanska Oresund, by offering good quality products and services to customers, is a market leader who outcompetes in the industry. In the mean time, more intensive and fierce competition, both within and outside of construction industry, also drives Skanska Oresund to make changes and innovate itself. The company could add value in its offering to customers by enhancing the overall value proposition, e.g. offering an integrated solution to customers. In this way, in order to increase its value proposition or adding new key partner, the company would initiate a change in the existing business model. On the other hand, in order to outcompete on the market, Skanska Oresund does not necessarily have to innovation the business model. The company could simply increase the value of its offering without adding new features in it. A better location of projects, brand name, new workplace design in the offices are ways of improving the value proposition without changing the business model.

Also noteworthy, competition, customer expectations, and sustainability do not independently influence Skanska Oresund's decisions in business model change, but more likely function aggregately. Nonetheless, considering the construction industry specifics such as being a traditional market and being central to risk-management, it is difficult to say whether the company would in the end decide to change its business model because of these drivers. As a result, the actual strength of critical drivers would be evaluated under a bigger picture, which is construction industry and company specifics discussed in the beginning.

### **5.3.3 How Do Main Barriers Influence Skanska Oresund's Business Model Innovation**

*Main Barriers: Culture, Inertia, Risk-aversion and Cost of Project*

Contrastingly, the biggest barriers for Skanska Oresund from innovating its business model include culture, inertia, risk-aversion and cost of project. They, working as individual or being taken together aggregately, hinder company from making change in its business model. As analyzed above, the business culture is expressed and embodied in values, business principles, or ethical norms among managers who

transport them to their subordinates. It provides principles and vision for employees. Thus, it is inevitably tightly connected with the approach that the company takes to deal with its main business. Acknowledged by all interviewees, risk-aversion is a dominant approach and risk-management is a priority in project developments. Therefore even with undoubted open atmosphere to share innovative knowledge and creative ideas, the risk-averse approach outweighs when it comes to implement or try out those new ideas. Besides, inertia is also revealed in Skanska Oresund under the context of long-established success and market-leading status. The employees feel comfortable with the established routines and procedures for current business model, since they have brought past success and continue in supporting successfully current activities. Thus, in fact the culture actually interplays with risk-aversion and inertia and we could say that culture needs to be changed at first place in order to influence the risk-aversion and inertia. These barriers aggregately hinder the company from adopting or changing the business model. Moreover, both risk-aversion and huge cost of projects are tightly connected in a way that the cost of the projects aggravates the risk-averse behaviour of the company. With similar logic, the strength of critical barriers should be seen within construction industry and company specifics.

#### 5.3.4 Summary

Leadership as well as capacity and resources, found as important drivers for business model innovation in extant literatures, in fact proved to be not so important in Skanska Oresund's case. The industry and company specifics seem to weigh more as to business model innovation compared to the barrier effect out of no one being in charge of leading a change. More specifically, leadership, here referring to managerial decision to create value, could be based upon value proposition enhancement or selection of location for premise etc, not necessarily resulted from business model innovation. Thus, this factor could not be identified as a driver nor barrier explicitly.

Resources and capacity have been stated as important drivers for business model innovation in extant literature. In Skanska Oresund there is lack of resources, in terms of people who have time and capacity to explore new business opportunities.

Nonetheless, we could not neglect the fact that due to the barrier factors of risk-aversion and huge cost of construction project, even abundant human resources would not necessarily lead to business model innovation. Besides, since the company's business model is aligned with that of Skanska AB, as pointed out by project manager, the people in charge of new business model design should come from Skanska AB. Therefore, once again we found industry specifics and company specifics play more critical role in business model compared to the factors.

Drivers and barriers, they do not only exert their influence into business model but they also interact with each other. A driver could also strengthen a barrier. For example, financial target "ROCE", being a driver for change of past Skanska Oresund's business model, would intensify risk-aversion since the company usually would follow the regular path and past experience for being successful. In this sense, the nature of the one-time driver could potentially become the limit for the next change regardless of the necessity of the change.

In all, we found the factors influencing business model innovation in Skanska Oresund should be observed along with company and industry specifics aggregately. The empirical findings in Skanska Oresund reflected argument of Johnson et al.(2008) that business model innovation should be undertaken only when companies are sure that the opportunity is large enough to warrant the effort and the risk. In other words, being competitive in this industry might not necessarily stand for a change in business model, and could actually be achieved through other changes, such as improving core capabilities.

## 6. Conclusion and Implications

Final conclusion from our analysis will be drawn in this chapter, as well implications for literature and practical implications for companies. Limitations of this research as well recommendations for future research will also take place here.

## 6.1 Conclusion

As already has been introduced at the beginning of this paper, according to literature, business model innovation play significant role in companies' innovation strategies. As Najmaei (2011) argues, it has important implications and in the practice, since many executives rely on business model innovation in order to outcompete the competitors. Among researchers there are opposite opinions about the need of business model innovation. Some suggest that companies should continuously innovate their business models, while others argue that business model innovation should be considered only when there is a strong justification about it.

Through analysis of the findings, it was revealed that business model innovation in construction industry is somewhere in the middle of the above cited opposite positions. Business model innovation is not the biggest priority for companies, and innovation through "old fashion" product improvement or new technology is still a valuable approach. It has been revealed that business model innovation might be too risky enterprise and companies do not look at it as a cure for all problems, while they still have other means to keep and improve their performance. This is specifically valid for conservative markets, as construction industry market.

It has been also revealed that there are a few main factors having impact on decision making towards business model innovation. These factors have been divided into drivers and barriers. And while literature discusses mainly barriers for business model innovation, we have explored both, drivers and barriers. They influence in opposite directions business model innovation. Drivers foster the innovations and barriers hinder the innovations. As most critical drivers have been identified *customer expectations, return on capital employed, competition and sustainability*. They have different influence on company's decisions and their weight depends on company's strategy and core values. In addition, return on capital employed has been identified as the only factor which provoked a major change in the business model for the last 15 years.

On the other hand, *culture, inertia, risk-aversion* and *cost of project* have been revealed to be main barriers. Culture, inertia and risk-aversion have strong interdependence, as



well as risk-aversion and cost of project. Consequently when studying these factors, both drivers and barriers, the influence and the interconnection with each other should be considered since they exert their influence simultaneously and from different perspectives.

## **6.2 Implications for research**

There is a gap currently in literature discussing factors influencing business model innovation. We made a step forward by narrowing down this gap. New factors emerged from our findings as having key role in decision making process in regards to business model innovation. Return of capital employed, sustainability, customer expectations emerged as new factors and were identified for being key drivers in management decisions. On the other hand, risk aversion and costs of project have been identified as new key barriers. As to existing literature, discussions are mainly in regards to barriers of business model innovation. In our findings factors were clearly defined as drivers and barriers, and further researches could go in-depth in investigating the relative power of these two groups and what is their influence under specific circumstances. As this was a case study, the generalizability of empirical findings is limited. Nevertheless, the newly identified factors could be further explored through a quantitative research, which would provide greater generalizability of the outcomes. Connections between different factors have been identified. Inertia and risk-aversion are highly dependent on culture. In same time risk-aversion has tight connection with cost of project. In our research 8 factors have been nominated as having substantial impact on business model innovation. A further research may try to isolate only a few most critical factors and to go more in-depth in exploring their interdependence and their influence on companies' decision making towards business model innovation.

## **6.3 Practical implications**

As to the practical implications of this research, companies may find useful insights in terms of business model innovation. Our findings revealed some of the advantages and disadvantages of business model innovation and indicated that companies have also other means to outcompete on the market. Thus, business model innovation should be

undertaken only after a careful consideration of the positive side. Managers need to consider carefully the market position of the company, its strengths and weaknesses and where company wants to go, before to decide what and how to change their existing business model. What is more, companies should be able to embrace the new business model, while they still support the existing one. The specific characteristics of the sector in which companies operate might be determinant for the right decision, since different markets may react differently on business model innovation. Our analysis also revealed the main factors which companies should be aware of for possible influence on their decision making towards business model innovation and by managing these known factors, organizations would be able to influence the pace of innovation in their companies.

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Andreas Lundberg – Business Developer

Martin Persson – Project Manager

Jessica Andersson – Leasing Department

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# Appendix

## Interview Guide

### **I. Basic Information**

1. What is your name?
2. What is your position in the company?
3. How long have you been working in the company and on what are your responsibilities?

### **II. Business Model**

1. What is a business model for you? And what is your understanding of the business model of Skanska Oresund?
2. From your perspective, what is the purpose(role) of the business model?
3. In this sense, how does your job relate to the business modes (or in what place)?
4. Can you identify all different components of Skanska's business model?
5. Do you consider some components as more important than others?
6. If you have to classify your business model, what would you say is it value-driven or cost-driven?

### **Customers**

1. Who are your customers?
2. What is the product that you offer to your customers?
3. Can you offer more value to your customers, both tenants and investors? how you can do that?

### **III. Factors**

1. Do you think that it is necessary to innovate your business model more often or not?
2. Do you see any issue in the current business model?
3. Can you give us an example for a change in your business model since you have started working for Skanska?

- if yes, what was the reason for this change (what are the factors that making this change happen?) when making the change, were there any obstacles?
  - if no, Why you haven't changed your business model at all? Can you tell us what are the reasons?
4. Can you tell us any factors that influence the change of the business model?
  5. Which factors do you think have bigger impact on the change of the business model?
  6. Take a look in the list and tell us if you think that some of the factors listed may have an influence on business model innovation in Skanska
  7. If you think that something in your business model should be changed, are you able to do this, or should it be done on a higher level?
  8. Is Skanska traditional or innovative company?