Chapter 10
What Makes a Global Business Model?

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ABSTRACT

A firm's business model is an essential mechanism determining how an organization creates value for its stakeholders and captures part of the created value as profit for its owners. Global enterprises secure their market positions through properly functioning business models that are globally scalable. Once a globally scalable business model is successfully designed and validated in one location, it becomes a non-location-bound firm-specific advantage, promoting the firm's international expansion. This chapter addresses the following research questions: (1) What is the role of a business model in the success of global enterprises? (2) Which common attributes do business models of successful global companies possess? and (3) How to make a business model more suitable for global expansion? The theoretical analysis of these questions yields a conceptual framework for examining the global companies through the business model lens. The developed conceptual framework is illustrated and corroborated with the mini-cases of global companies.

INTRODUCTION

The keystone of any global enterprise lies in its non-location-bound (NLB) firm-specific advantages (FSAs), which, once developed in one location, can be executed in other locations with marginal benefits exceeding marginal costs, by this means creating the incentives for global expansion (Rugman & Verbeke, 1992; Rugman & Almodóvar, 2011; Verbeke & Yuan, 2010; Grøgaard & Verbeke, 2012; Verbeke, 2013; Verbeke, Zargarzadeh, & Osiyevskyy, 2014). Traditionally, non-location-bound firm-specific advantages

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were considered to be originating from the R&D or marketing activities through creation of intangible assets (such as new products, globally recognized brand name or reputation) that can be profitably leveraged on a global scale (Verbeke et al., 2014). In this chapter we suggest that these sources of FSAs have to be supplemented by one more essential factor, the firm's business model, which – once successfully developed and validated – becomes a firm-specific advantage itself (Osiyevskyy & Zargarzadeh, 2015), simultaneously becoming a critical determinant of the possibility of leveraging other non-location-bound firm-specific advantages in other markets (Hennart, 2014).

A firm's business model is the organizational meta-routine serving two basic purposes: (1) value creation for the firm stakeholders, and (2) value appropriation for firm owners (Osiyevskyy & Dewald, 2015a; Osiyevskyy & Zargarzadeh, 2015). Value creation is achieved through providing attractive value propositions to key stakeholders, while value appropriation is determined by the firm's ability to sustain the economic rents thanks to superior bargaining power vis-à-vis essential resource providers and customers. Importantly, it is only the combination of high value creation and appropriation that leads to a sustainable, "Winner" business model; whereas superior results in only one of these dimensions lead to inherently unsustainable positions of a "Giver trap" [having happy stakeholders yet unhappy shareholders] or a "Taker trap" [companies that enjoy temporarily high profits unsupported by superior stakeholder value] (Biloshapka et al., 2016).

The "routine" conceptualization of the business model allows proper anchoring of this still contentious construct (Zott et al., 2011) within the traditional evolutionary economic theory terms (Nelson & Winter, 1982), defined as intentional, repetitive patterns of activity within the organization (Osiyevskyy & Zargarzadeh, 2015).

An interest in the business model concept has dramatically increased over the 15-year period between 1995 and 2010 (Zott et al., 2011). Scholars claim that this resulted largely from the advent of the Internet (e.g., Amit & Zott, 2001), rapid growth in emerging markets (Prahalad & Hart, 2002; Seelos & Mair, 2007; Thompson & MacMillan, 2010), and the expanding industries and organizations dependent on post-industrial technologies (Perkmann & Spicer, 2010). These trends led to business model becoming a new unit of analysis that is distinct from the product, firm, industry, or network; even though it is based on a focal firm, its boundaries expand further than those of the firm (Zott et al., 2011; Zott & Amit, 2013). Firms do not execute their business models in a competitive vacuum, but rather compete through their business models that serve as a potential source of competitive advantage (Osiyevskyy, 2014) and superior value creation (Morris et al., 2005). Importantly, as any routine, a business model acts as a mechanism of organizational memory (Nelson & Winter, 1982), accumulating the knowledge about a successful way of generating and capturing economic value, particularly in a global context.

Similarly to other types of commercial organizations in a free market economy, global enterprises secure their market positions and profit through properly functioning business models (Osiyevskyy & Zargarzadeh, 2015; Hennart, 2014). The business models of such enterprises are globally scalable, allowing profitable international expansion.

As we are showing in this study, the globally scalable business models have essential peculiarities that make them suitable for international expansion. Yet, despite the crucial importance of specific features of globally scalable business models, this topic received insufficient attention in prior literature. This sets the motivation for the current chapter, which intends to examine the global companies through the business model lens, addressing the following formal questions: (i) what is the role of a business model in the success of a global enterprise? (ii) which common attributes do business models of successful global companies possess? and (iii) how to make a business model more suitable for global expansion?

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