

# Chapter 7

## The Role of Internal Standardization in Business Models: An Activity Configurations Perspective

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### ABSTRACT

*This chapter focuses on business models and the role of internal standardization in business models. The authors develop a typology that outlines the role of internal standardization for a set of value configurations that serve as representations of generic business models. The topic is of importance for both managers and researchers in relation to firm level innovation and strategy, as well as how business models relate to internal and external standardization. With regard to business model innovation, this chapter can aid in identifying shifts in the firm's internal standardization focus associated with changes in its business model.*

### INTRODUCTION

Interest in the business model concept has surged during the last twenty years (Ghaziani & Ventresca, 2005; Zott, Amit & Massa, 2011). The increased attention of management scholars in business models and the relation to strategy stems from the attempt to explain value creation in the arising digital economy and increasingly important networked markets (Zott et al, 2011), both in the form of markets with single-side as well as multiple-side network effects (stemming from complementarity).

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## ***The Role of Internal Standardization in Business Models***

A business model can be viewed as a system of activities which is not delimited to the firm itself but includes a system-level approach to how the firm interacts with its environment and does business (Zott et al, 2011). Developing a successful business model is often insufficient to assure competitive advantages as imitation might be easy. Business model innovation can, however, be a pathway to competitive advantage and limit the risks of imitation (Teece, 2010). Christensen, Grossman and Hwang (2009) have addressed the topic of business model innovation by utilizing activity configurations (Stabell & Fjeldstad, 1998; Porter, 1985) as descriptions of generic business models.

The network configuration (Stabell & Fjeldstad, 1998) is of particular interest. It relies on standardization to facilitate a networked market. The creation of networked markets and complementarity between them depends on the ability of standards to provide compatibility (Gallagher, 2007; Tasse, 2000), and networked markets have been of certain interest for research on standardization due to the fierce standardization competition they can entail (Bessen & Farrel, 1994). The network configuration can rely on proprietary standards to facilitate a networked market, but also on industry standardization to facilitate inter-network connections. Diffusion of industry standards is critical on networked markets (Stabell & Fjeldstad, 1998) and consequently the firm's business model depends on its proprietary standards as well as their relation to industry standards.

In general, standards enforce conformity requirements (Tasse, 2000) and serve as rules of key activities, resulting from consensus between agents (Narayanan & Chen, 2012)). The chain (Porter, 1985; Stabell & Fjeldstad, 1998) and package (Johansson & Jonsson, 2012) configurations also rely on standardization to realize value creation, for instance by reducing transaction costs of firm products in the market (Foss, 1996).

Hence, standardization seems to play an important role in activity configurations for value creation, but its more precise nature in association with each of generic configurations above has not been treated as a key topic in the literature. This chapter aims at elucidating the particular use of internal standardization in enabling different business models in the form of generic activity configurations. Hence, this chapter links the field of standardization with the fields of activity configurations as business models. By development of a typology, the main internal standardization nature of the chain, network, package and shop configurations is outlined. The focus is on internal standardization, but we also recognize that internal and external standardization are interrelated (Botzem & Dobusch, 2012; Okhmatovskiy & David, 2012; Schilling, 1999; Boiral, 2012; Narayanan & Chen, 2012), and thus our findings are of importance also in relation to external standardization, activity configurations, and the value of external standards (Mione, 2015). In particular, our findings can serve as an antecedent or partial explanation to cooperative strategies in association with standardization, as standardization can be seen as a specific type of competition (Blind and Mangelsdorf, 2016).

## **BACKGROUND**

### **Activity Configurations as Business Models**

During the 1990s, research pursued alternatives to the value chain (Porter, 1985) by focusing on inter-relationships and complementarity, but also by focusing on various types of scale effects. For instance, Normann and Ramirez (1993;1994), through their concept of value constellations, pay specific attention to co-creation of value between players. Stabell and Fjeldstad's (1998) value configurations, on the other

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