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Exploring the Field of Business Innovation

New Theoretical Perspectives

Second Edition

Oliver Gassmann · Karolin Frankenberger · Roman Sauer · Ivo Blohm · Maximilian Palmié

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Exploring the Field of Business Innovation

"Professor Gassmann and colleagues pack a great deal of important research into a surprisingly readable and compact format. This volume will be essential reading for academics working on the study of business model innovation. It will also be quite helpful for people in industry who seek a broader perspective as they search for ways to enhance an existing business model, or to disrupt an incumbent's business model."

—Professor Henry Chesbrough, *UC Berkeley*

"This book fills a much needed gap: with great clarity Gassmann and Frankenberger explain that there are 7 ways that managers, students and researchers can utilize business models to think more clearly about business problems – and they provide a vivid illustration to make this come alive."

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"Without a doubt, the most comprehensive and well-researched survey of the literature on business models and business model innovation. A must read for anyone aiming to understand the origins, current state, and future prospects of this important and growing field of management research."

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"A comprehensive overview of the current state-of-the-art of the business model literature, and a useful primer on possible theoretical perspectives that could help push the boundaries of the fi eld. Short and punchy – a great Business Model Theory Navigator!"

—Professor Christoph Zott, *IESE Business School*

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CHAPTER 1

Introduction and Fundamentals

Abstract This chapter lays the foundation for understanding business innovation as an interdisciplinary and evolving academic field. It outlines the fragmentation in innovation research and highlights the challenges posed by the diverse theoretical lenses applied across studies. It addresses the need for more cohesive frameworks that bridge disparate approaches and connect theoretical foundations with practical applications. Through a discussion on the origins and evolution of innovation studies, the chapter introduces the concept of innovation management and positions it as a focal point in reconciling fragmented perspectives. The role of academic disciplines, the diffusion of innovation theory, and the growing importance of innovation for firms and societies are explored, setting the stage for the chapters that follow.

Keywords Business innovation · Innovation management · Innovation research · Logical reasoning (abduction, deduction, induction) · Role of theory · Scientific inquiry · Theoretical foundations · Types of theories

This book aims to provide PhD and advanced master's students in management and business innovation an initial, broad overview of extant theories. It is a result of a need we have observed in our PhD courses over the past 20 years. It does not intend to replace a deep dive into the

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theoretical discussions. Instead, it provides a very early orientation to the various theories, and offers a taste of the fascinating world of theories in management and business innovation. A lack of a theoretical contribution is the number one reason for paper rejections among the leading management journals. Sooner or later, all management scholars must work with theories. Some practitioners reject new theoretical ideas on the basis that they may be too abstract, but "there is nothing more practical than a good theory," as social-psychologist Kurt Lewin (1952, p. 169) once stated. A good management theory bridges the gap between practice and academia by providing both a lens for analysis and a guide for action.

This book is not written for deep theory scholars. Rather, we wanted to address those phenomenon-oriented researchers who want to understand, explain, predict, and design phenomena in management and business innovation. A good theory can help us understand and design management practices like corporate-transformation processes, the adoption and diffusion of new digital technologies, or the development of new business models.

1.1 Why Theories in Management?

In management and innovation, a theory is a systematically organized framework of ideas, principles, and concepts that seeks to explain, predict, and guide our understanding of organizational phenomena, behaviors, and practices. In the "exact" natural and social sciences, theory plays a different role. In the former, a theory provides a rather objective image of the outside world, which should lead researchers in their thoughts and experiments. Ultimately, a theory leads to the understanding of a problem, as the Austrian physics scholar Ludwig Boltzmann pointed out in the late nineteenth century (Cercignani, 2006). In the latter, a theory consists of a set of statements as well as related concepts and constructs. In other words, the choice of theoretical lens leads to a specific outcome. A theory is a mental framework that enables analysis (i.e., illustrates what a phenomenon actually is), explanation (i.e., describes why certain events or behaviors occur under specific conditions), prediction (i.e., forecasts likely outcomes based on established patterns and relationships), and guidance (i.e., offers a foundation for action and decision-making in both practical and research contexts).

Theories in the fields of management and business innovation are derived from empirical research, practical experience, and interdisciplinary insights, and often address questions about leadership, motivation, resource allocation, performance, and organizational change. They serve as tools to generate hypotheses, design research, and guide the development of good practices. We have theories in management and business innovation for several reasons:

1. Theories provide a framework for understanding. They offer a structured way to comprehend complex business dynamics and make the abstract tangible. Simplified patterns, such as the popular 2 × 2 matrices in management, help to improve understanding. The real world has more dimensions, but humans find it easier to comprehend the problem and develop strategies when using such frameworks.
2. Theories have predictive power. They highlight patterns and provide tools useful for forecasting potential outcomes. This is very important, as most management situations are challenging, especially the more we enter the world of VUCA (volatility, uncertainty, complexity, and ambiguity).
3. Theories have problem-solving capabilities. They can guide leaders in understanding a situation, diagnosing problems, formulating solutions, and anticipating consequences.
4. Theories provide boundary-spanning insights. They create a common language through their frameworks and help link various management disciplines (e.g., strategy, marketing, operations) to allow for integrated decision-making. A common theory builds bridges in multi-rational organizations.

Theories should not be self-sufficient. In management, as an applied science, they are anchored with the focal phenomena. However, in Birkinshaw et al. (2014, p. 42) debate on the future of management research in the *Journal of Management Studies*, Suddaby criticized the "growing tendency amongst management scholars to be increasingly fetishistic about theory, often at the expense of phenomena." In this booklet, we want to encourage theoretical pluralism instead of reliance on a single managerial theory, as suggested by Bartlett and Ghoshal (1993). In management education, we see the strength of providing a holistic framework like the St. Gallen Management Model (see Ulrich & Krieg, 1974). Executives love such frameworks, but there is a need for multi-rationality and theoretical pluralism in today's complex, volatile world.

1.2 Grand Theories Versus Puzzling Theories

Theories have different levels of abstraction—from conceptual or grand theories to mid-range theories to puzzling or situation-specific theories. Grand theories, like the transaction-cost approach (see Sect. 3.20), the resource-based view (Sect. 3.14), or the knowledge-based view (Sect. 3.12), have a broad scope. Other theories, like the information-processing theories (Sect. 3.44), are rather narrow and serve as pieces of a puzzle in the big picture. Abstraction levels can be exemplified by a tree and images of that tree—the real tree has the lowest abstraction level. The level of abstraction increases as we move from a 3D image of the tree to a colored picture, a black-and-white picture, a silhouette, an abstract sketch, and, finally, a pure symbol. An abstract theory has a wide scope but limited explanatory power.

1.3 Terminologies of a Theory

Concepts and their *relationships* are fundamental building blocks of a theory (Burton-Jones et al., 2015). Concepts exhibit varying degrees of abstraction—that is, the extent to which they are objective. For instance, a table is an objective concept. We can point to a table and generate mental images of the characteristics of all tables. Visualizing an abstract concept, such as personality, is significantly more challenging. Such abstract concepts are often called constructs (Cooper et al., 2006).

Constructs are abstract representations of the concepts under investigation, while *variables* are their measurable representations. Constructs help explain how and why certain phenomena behave the way they do. They need to be made explicit so that they can be: (a) criticized, (b) related to other constructs, (c) operationally defined, and (d) tested (measurable). Examples of constructs include financial performance, corporate social responsibility, firm survival, and service quality (Cooper et al., 2006; Nahapiet & Ghoshal, 1998). Related variables would, for instance, reflect measurable quantities, such as revenue in USD