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Business Models in Global Competition

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Running Head: Business Models in Global Competition

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ABSTRACT

Research Summary: Multinational Enterprises create and capture value through appropriate business models that fit both distinctive capabilities and dynamic markets. The key elements of a global business model include propositions for adding customer value and capturing a share of that value, methods to control, deploy and utilize critical resources, and integrated processes that deliver value to target global customers. These factors explain the diversity in business models, with international competition in geographically dispersed markets further fortifying this diversity and complexity. This paper demonstrates ways forward in theorizing about business models, applying these models in the global context, discussing capabilities and strategies necessary for value generation from a global business model, and relating the choice of model to the strategic context of the modern multinational firm.

Managerial Summary: MNEs seek value in the global marketplace through distinctive business models, as is the case in other markets. Global markets add layers of complication, as the MNE needs both a global umbrella business model and a local business model for each product and international host market. Because the global business environment is highly dynamic, and each host market offers unique contextual characteristics, simple and fixed business models are not feasible. This article offers insights into how aspects of the business model and the multinational firm must be adapted to locational characteristics.

INTRODUCTION

We define a business model for global competition (or a global business model) as the means by which the multinational enterprise (MNE) creates customer value and builds its own profits distinctively and sustainably in the global marketplace. It depicts how the firm leverages and integrates its resources and capabilities, both internal and external, and where and how it performs the unique value-creating activities that allow it to meet the demands of customers in those international markets that the firm enters. Leaving aside references to the international and global settings faced by MNEs, this definition closely approximates those used to describe business models in general. The concept of the business model is widely used in business practice and among consultants and academics who focus on practice, but has only rarely been subjected to careful scholarly analysis (however, see Amit & Zott, 2012; Zott & Amit, 2008). Even less has the concept of the business model been applied in scholarly works addressing global markets (Tallman, 2014). We develop a framework for global business models in this article to inform future research and practice which is consistent with existing concepts of business models and with current thinking about international markets and global strategy. We focus on the impact of the global business environment on business model creation and operation.

A business model describes a framework by which the firm creates and captures value, including a unique activity and resource structure and an innovative customer value proposition plus a scheme for capturing and allocating economic value (Casadesus-Masanell & Ricart, 2010; Teece, 2010). The business model literature generally advises that the firm develop and pursue a consistent blueprint for its strategy, structure, resource and revenue models. The integrated nature of business models means that true innovation in this area tends to be tied to entrepreneurial entrants and difficult for incumbents to match (Teece, 2010; Christensen, 1997). In particular, firms need well-considered architectures at any given time, but as a result will find "immense difficulty in changing [their] business models" (Teece, 2010: 181). Some authors, such as Amit and Zott (2007), see a consistent firm-level business model as essential, while others, such as Teece (2010), recognize the need for a sustainable value proposition for each market segment. We build on these approaches to consider what differentiates the business model concept in the global marketplace. First, the MNE needs to understand its approach to the overall global marketplace – how it builds value, how its value proposition is positioned for its customers, how it will profit from a large, widespread, and differentiated market. Second, because global markets are built of differentiated local markets, the MNE must also adapt its business model to the unique context of each regional, national, and even sub-national, market in which it competes. Third, the complex and dynamic interaction of forces in the many realms of the global business environment – political, economic, social, demographic, cultural, to name a few – means that MNEs must build adaptability and innovative potential into their business models if they are to achieve sustained success. We offer a model for the MNE business model that incorporates these three considerations.

We begin by articulating how the 'new global reality' is shaping MNEs' business models. We continue by explaining core elements of the business model and placing this conceptualization explicitly in the international context by describing how aspects of the global business environment are likely to impact the various parts of our detailed framework, both in developing an umbrella worldwide business plan and in adapting this plan to various local and regional markets. We then consider how successful MNEs innovate through their global business models to leverage emerging opportunities associated with this evolving marketplace. The competing needs for stability and transferability and at the same time for flexibility and dynamism suggest the importance of multi-dexterity behind the design of global business models – one hand for the globally consistent umbrella model and one for each local adaptation. The article ends with a general discussion and future agenda.

BUSINESS MODELS IN THE *NEW* GLOBAL REALITY

In this section, we highlight how the ways by which MNEs create and capture value through their business models are undergoing radical transformations worldwide due to changes in the global macro-environment, as summarized in Figure 1. The constantly changing global environment offers radical new opportunities for researchers seeking to understand the dynamics of business model development and execution.

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First, *global connectivity:* Digital platforms, information and communication technologies, internet access, and web-based connections are tying MNEs to their worldwide customers, suppliers, distributors, logistic providers, industry designers, professional service providers, and employees in ways that were all but impossible only a decade ago. This connectivity enables MNEs expand rapidly and profitably to customers far beyond home markets, while nurturing new ecosystems that span borders and connect clusters of suppliers, distributors, and after-sales services. Most MNEs now use digital platforms such as E-commerce marketplaces to create global business models and connect businesses to global customers.

This connectivity also fosters entirely new forms of collaboration and new global business models, pushing MNEs more toward network-based organizations – a network structure both within an MNE and with important eco-business players outside the MNE. Of course, this connectivity also exposes MNEs to new rivals with very different business models and cost bases (e.g., emerging market MNEs), which also can force business model innovation. In fact, global production networks (or GPN), prevalent in recent years, are a result of these dynamics. A GPN is an organizational platform through which actors in different regional and national economies compete and cooperate for a greater share of value creation, transfer, and capture through geographically dispersed economic activity (Yeung & Coe, 2014).

Second, *technological upheavals*: The proliferation of technology-enabled business models, from online retail platforms (e.g., Amazon and Alibaba) to car-hailing apps (e.g., Uber and Didi), thrive today. Technology allows businesses such as WhatsApp to start as born global companies and gain global scale with stunning speed while using little capital (Dobbs, Manyika & Woetzel, 2015). International entrepreneurs and start-ups frequently enjoy advantages over large, established MNEs because of their sophisticated use of technology. The furious pace of technological adoption and innovation is shortening the life cycle of companies and forcing global executives to make decisions and commit resources much more quickly. Technologies such as 3-D, automation, new materials, genetics technology, digitization, micro-processing, new energy, Internet of things, mobile-centric applications and interfaces, big data, cloud computing, next-generation analytics, and contextual and social user experience, to name a few, are shaping both the ways of doing business for MNEs and the experiences of consumption for worldwide customers.

Third, *pro-market reforms and market development in emerging economies:* Deregulation, marketization, urbanization, industrialization and internationalization of emerging economies prompt global business model innovation. MNEs need to innovate their business models to seize market opportunities arising from the shift of the locus of economic activity and dynamism to emerging markets such as BRIC (Brazil, Russia, India and China) and MIT (Mexico, Indonesia and Turkey). These emerging markets are going through simultaneous industrial and urban revolutions as well as institutional changes, shifting the center of the world economy more toward Asia and Latin America. This has prompted many MNEs to shift their traditional top-down approach to new markets (i.e., treat emerging markets as mere implementers of global initiatives) to a bottom-up approach (i.e., build global initiatives around emerging markets) as they design new global business models. Unsurprisingly, we see an upward trend that many MNEs are choosing large and vibrant cities in emerging markets as regional or global headquarters (Dobbs, Manyika & Woetzel, 2015), reverse transfering some successful business models from emerging markets to be applied globally (Govindarajan & Ramamurti, 2011), and designating some emerging market subsidiaries as global champions, global innovators or strategic leaders for their global operations for key products tailoring to mass markets (Luo, 2007). MNEs are compelled to innovate global business models in response to this significant trend and to capture profits from the alignment between their business models and emerging opportunities.

Fourth, *accelerated flows in trade, investment, capital, services, information and brainpower*: International economic organizations and growing treaties and bilateral and multilateral agreements foster greater mobility of production factors and easier access to different markets (Liesch, Buckley et al., 2012). Global trade, investment and capital flows have expanded into a more complex, intricate, sprawling web. Reduced barriers in the above realms together with information technology have permitted change with increasing speed, creating unmatched opportunities and fomenting unexpected volatility (McKinsey, 2015). Under these conditions, pressures to create new business models and to redefine the borders of companies and markets have increased because digital technologies make it possible to transform and recombine flows. One response is that most MNEs increasingly have globalized R&D by locating and operating R&D laboratories in different countries under a coordinated and integrated worldwide system. Unlike in the past, where technology flows were often perceived as unidirectional from the parent company to overseas affiliates, firms now consider foreign R&D units as critical sources of technological competencies and are thus assigning them new tasks vital to the firm's global strategy and global success (Lewin, Massini and Peeters, 2009).

Another related example that carries strong repercussions on global business model innovation is business process offshoring (BPO) and knowledge process offshoring (KPO) - transferring operational ownership of one or more business or knowledge processes to foreign country entities that conduct or manage the services according to predefined metrics. Because BPO and KPO reduce costs, streamline worldwide services, and increase net profits, MNEs increasingly disaggregate IT-enabled business processes or activities through offshore services as a part of business model innovation (Tallman & Mudambi, 2013; Jayaraman, Narayanan, Luo & Swaminathan, 2013).

Lastly, *increased availability of global open resources*: There have been constantly growing and better developed global open channels or markets for applied technologies, key components, intermediary resources, professional services, logistics providers, crowdsourcing, user feedback platforms, and the like. This availability has changed many MNEs' global business models, allowing MNEs to emphasize distinctive activities or processes where they maintain competitive advantages while taking advantage of global open resources via cross-licensing, alliances, and acquisitions.

The market landscape for acquiring resources is now quite different from that of a decade or more ago, in that there is the presence and availability of various intermediary resources or inputs. These include professional industrial design, applied technologies, assembled key components, distribution specialists, total logistics solution providers, advertising and promotion specialists, among others. This new landscape is particularly striking in both developed and large emerging economies (Luo & Child, 2015) where industrialization, along with information and communication technology development, foster a growth of a large number of such specialized and professional industrial and service providers. Because well-established open global markets in applied technology, advanced machinery and equipment, the latest instruments, and sophisticated materials and components were not present in the early years of the market leaders' growth, these precedents were much more path-dependent and resource-constrained. In addition, the modularity of technologies and standardization of technical norms across countries encourages MNEs to revamp their global business models. Cross-sharing key resources such as technology, distribution channels, key components, supply base, and other assets among MNEs within the industry or between different industries is unprecedentedly prevalent due to heightened needs for quick market responses, sophisticated global demands, and synergetic gains from complementary cooperation.

BUILDING GLOBAL BUSINESS MODELS

As a response to these complex and dynamic global forces, MNEs must build business models that are both the bedrock of the firm's global identity and capable of interpretation and adaptation across increasingly varied international markets. A business model is descriptive of what the firm is and what the firm does to create value in the marketplace. As such, most business models call for, or at least imply, the need to encompass the resources and capabilities of the firm and its network and the organizational structure that ties these resources and capabilities together (Amit & Zott, 2001; Casadesus-Masanell & Ricart, 2010; McGrath, 2010). The business strategy of the firm, i.e., what it does with those assets and that structure to generate competitive advantage through providing value to its customers, represents the action aspect of the business model. A business model describes, as a system, how the pieces of a business fit together, while a business strategy explains how a firm should act in order to do better than its rivals (Magretta, 2002). Business models are inherently configurational (Miller & Friesen, 1979) or holistic – all the parts must work together to generate success. Further, success is closely tied to a model of value capture and profitability (Teece, 2010), with an explicit approach to cost reduction and revenue generation offered and the allocation of profits among the members of the MNE's value production network specified.

---Put Table 1 about here---

Business models may be holistic by nature, and are conceived in various ways, but they typically are organized as a set of separable activities, as we see in Table 1. Common elements that constitute a business model are: (1) a customer value proposition (e.g., product, price, value, service, solution); (2) key processes (e.g., R&D, manufacturing, HR, marketing, IT) and (3) resources (e.g., brand, people, technology, partnerships, channel); and (4) a profit formula (e.g., cost structure, revenue model, profit sustainability) that the firm must use to deliver the customer value proposition repeatedly and at scale (Gambardella & MGahan, 2010; Boons & Ludeke-Freund, 2012; Tallman, 2014). Creating competitive advantage lies in integrating these elements to produce value for both customers and the company (Amit & Zott, 2012; Teece, 2010; Zott & Amit, 2010). Doing so in the global business environment adds a variety of challenges.

The Value Proposition

The first, and perhaps most critical, aspect of a business model is the customer value proposition (or CVP). Industry-focused approaches (e.g., Porter, 2008; Prahalad & Doz, 1987; Zott & Amit, 2007) describe internal competition and industry or market segmentation, and recognize that firms tend to offer either lower prices or greater performance to customers. Firm-focused approaches such as the Resource-Based View, Knowledge-Based View, or Dynamic Capabilities Model recognize that the value of the assets of a firm ultimately rests in its ability to offer their unique benefits to its customers. In both approaches, though, customer relationships are treated as generic considerations while the focus is on the competition among firms for either protected market positions or uniquely valuable assets. Business models, however, offer a more nuanced view of customer demand, considering the context in which the customer is embedded, the differing needs of different customer groups, and the connection of the resources and capabilities of the firm and its network to fulfilling these needs.

Developing the CVP requires an explicit yet often unique configuration encompassing what potential customers need or want and what the firm can provide, depending on its internal assets and the resources and capabilities that its network of value-adding suppliers might provide. Global business models are applied to a wide variety of customers across a range of host markets. International business concepts (e.g., Ghemawat, 2007) recognize explicitly that foreign markets are characterized by unique institutions, including cultures, political systems, legal and regulatory systems, levels of economic and technological development, and geography. Further, these environmental aspects show greater or lesser differences from the home country of the MNE and previously targeted host markets. International strategy maintains that these differences drive 'liabilities of foreignness' which make the resources, strategies, and organizations of MNEs less effective generally in foreign markets as compared to their home markets, and also mean that these LOFs will vary from host market to host market (Zaheer, 1995). Customer needs and wants vary, resources are more or less applicable and capable of generating competitive advantage (Tallman, 1992), organizational preferences may not be acceptable in some countries (requirements for local partners are common in emerging markets, for instance), and value capture may be threatened by exchange rates or monetary policies. Trying to establish and maintain a global perspective on the MNE's value proposition in the face of these varied and dynamic markets is a challenge to the firm and its strategic management; trying to adapt the global value proposition to the vagaries of each market is perhaps more difficult.

The idea of reverse innovation, in which firms such as GE innovate by combining existing resources in new ways to meet the demands of emerging market customers only to discover strong latent demand for these same new product configurations in developed markets, provides an example of restructuring a global value proposition, adopting a unique proposition for an emerging market and then adapting the home country value proposition in a key sector to reflect access to the innovative technology (Govindarajan & Ramamurti, 2011).

Value Creation and Delivery

Critical to making the customer value proposition real is the internal value creation potential of the firm and its system, what might be called “the strategic firm” or focal firm (Tallman, 2014). By this we mean those internal units of the firm and external (alliance and joint venture partners, contracted suppliers, acquisition targets) elements of its network that add critical value to the product, thereby providing potential value to the customer, and deliver that value, thereby actualizing any potential customer value. The strategic firm clearly includes wholly and partially owned units, but equally clearly includes other firms or parts of firms that are affiliated with the primary firm, but are not under its ownership or bureaucratic control. Vertical integration, in which all or most critical value-adding steps of production are held within the legal bounds of the firm and are subject to hierarchical controls, has long been problematic (Rumelt, 1974), but has become nearly obsolete as an organizing principle in many dynamic, technology-focused global industries that have oriented on multi-firm networks of internal and affiliated firms for value delivery (Zenger & Hesterly, 1997). The rise of contractual value-adding networks is characteristic of most of the worldwide clothing industry; critical to the success of Apple, Samsung, and other firms in the computer and mobile phone industries; and essential to the global businesses of Boeing and Airbus in the civilian airliner industry, among many others.

Outsourcing not just cost centers but also profit-generating activities in which the focal firm has no unique competences is characteristic of value creation across an increasing number of industries (Buckley, 2011a). Such value networks allow firms to offer customizable experiences to a wide array of customers, greatly enhancing the value proposition, but also demand increased capabilities at managing the logistics required for an integrated value creation effort. New concepts such as modular production and new information technologies make effective networks feasible, but misadventures such as the Boeing Dreamliner fiasco (Kotha & Srikanth, 2013) show that turning feasibility into the actuality of an integrated value-creating network requires difficult-to-master new management capabilities. On the consumer end of the value-adding chain, we see increasing use of franchising in most retail fields, from fast foods to hotels to fashion retail. Internet platform-based personal services such as ride-sharing (Uber, Lyft) or space-sharing (AirBnB) rely on large numbers of providers in each national or local market to provide the actual service to large numbers of customers – the MNEs provide the matching platform and support services, but do not own cars or apartments themselves. These firms are finding that local contexts are forcing adaptation in many markets where cultural or institutional conditions block their 'global' business models (Chu, Schechner, Lombardi, 2017). Innovative value creation undermined by under-developed value delivery seems characteristic of business models for the new global business environment.

Value Capture and Allocation

Beyond recognition of the necessary resources and capabilities to create value and a (multi-organizational) structure to assemble those resources and deliver them to a customer, business models are also characterized by explicit models for value capture or profitability. Strategy typically looks to firm-level performance success, often expressed as competitive advantage, but treats that advantage as an expected outcome of holding superior resources or occupying a preferred position in the industry. Business models are more explicit and detailed about how and from where excess value will be captured in the form of revenues for the firm and its network (Tallman, 2014). The importance of understanding value capture is notable in Internet business models which tend to offer their basic services free of charge to their customers while seeking revenues through sales of advertising space or charging for upgraded or premium services (Teece, 2010).

Zott and Amit (2008) see explicit adherence to 'generic strategies' of cost leadership (efficiency) or product differentiation (novelty) as representative of alternative business models. They also differentiate perceived from realized performance, recognizing that just holding a good hand of resources does not necessarily equate to playing the hand strategically. Recognizing that many considerations intervene between the creation of customer value and the internalization of a part of the value is essential to business models. As tax avoidance, transfer pricing, jurisdiction shopping, exchange rate hedging, and other financial strategies and tactics have become increasingly important to MNEs, value capture on a global basis has come to mean much more than simply aiming at a target level of profitability across markets. The complexities of global accounting and finance have made corporate treasury activities major profit centers – and also incurred the wrath of regulatory and tax authorities at many levels and in many locations.

In the case of business models that call for external sourcing for at least some value creation, the model must also address allocation of the revenues that result from this value capture (Tallman, 2014). Again, allocating revenues and profits raises issues of tax minimization, exchange risk, and transfer pricing, notable particularly among US-based MNEs as they avoid repatriation of profits to minimize their tax burdens in their home jurisdiction. In order to maintain a successful strategic firm, integrated efforts must be rewarded by integrated and mutually acceptable assignment of this internalized value – worldwide tax minimization may well compete for priority with the competitive goals of various subsidiaries and affiliates. Such networks only work when mutually acceptable to all participants – unhappy supply networks do not deliver on customer value propositions for long. One can only imagine how the US operations of Apple, for instance, respond to paying royalties to the Irish subsidiary for the use of technologies that originated in California, but have been 'sold' to the Irish office as a device to accumulate intellectual property rents outside of the USA's high corporate income tax regime.

INNOVATING GLOBAL BUSINESS MODELS

It is clear above that the dimensions of the business model change when the firm (and the analysis) moves to a global setting (Tallman, 2014). Across different (national) markets the resources, capabilities, strategy, and structure of the firm will be affected and modified by changing market circumtances and by different levels of competition acoss national economies. Firm specific resources and capabilities may not transfer across national and regional boundaries. Value delivery decisions have to be modified because the cost and availability of infrastructure and transport systems vary enormously across the globe. The appropriation of value is altered because of macro differences at the national level including differences in inflation, exchange rates, taxation, government policies and because of the influence of local partners. Value allocation will be affected by changes in the structure of the global value chain as it is impacted by fundamental differences in political, social, cultural, economic and technological factors that vary by location.

These new global realities propel many MNEs to innovate their global business models. MNEs need to create customer value and profit distinctively and sustainably in the global marketplace by leveraging and integrating internal and openly accessible resources and performing unique value-creation activities that suit the needs of international markets that the MNE targets. As business activities reach out internationally, the business model has extended and enhanced repercussions for MNE performance at both global and local levels. There are several prevalent innovations in global business models to align with new global realities.

Global strategic partnerships play an essential role in refining global business models. As cross-border connectivity, physically and virtually, reduces inter-firm coordination and transaction costs, MNEs are taking advantage of the expertise and scale that lies hidden in their own organizations and across the globe. They are assembling business models fashioned by combining specialized capabilities and capitalizing on shared services. As a result, *business process or knowledge process offshoring* has emerged as one of the most noteworthy features in global business innovation today. Remotely performed business processes do not require geographical proximity between foreign customers and service providers, but such processes are a critical part of a globally linked service value chain system. The success of this type of global business model hinges in how to effectively integrate globally disaggregated business processes and activities (Luo, Wang, Zheng & Jayaraman, 2012; Buckley, 2012, 2015).

Reverse innovation is another example. While the business world is undergoing increasing globalization of markets for talent and business services, as well as increasing integration of talent management within a globally coordinated human resource system, we see increasing reverse innovation as a part of business model innovation for global competition — the case where an innovation is first adopted in poorer (emerging) economies and is later copied in the rest of the world, including developed countries (Govindarajan and Ramamurti, 2011). Today, many MNEs are learning to generate successful innovations in emerging markets and then export that knowledge and those innovations to many other countries. Their key subsidiaries in emerging markets are increasingly playing a role of global innovator, serving as the fountainhead of knowledge not just for the focal host country but for their global reach as well. Indeed, MNEs are looking to *emerging markets for growth* and revamping their business models in search of winning combinations in these new settings. However, in trying to transplant their domestic business models, they often end up slashing margins or confining themselves to the higher-income tiers, which aren't enough to generate sustained returns. Unmet opportunities in emerging markets are now gradually moving from high-class to middle-class and below-middle class. To exploit these markets, MNEs must devise fundamentally new business models that can meet them more profitably, accessibly, and affordably than the alternatives.

Co-development and co-evolution with the global eco-system is also an area showcasing global business model innovation. Conventional wisdom on business models held that competitive advantage was based on product excellence, in-house technology innovation, and careful management of scarce resources and supply chains. This perspective served well when resources were costly and scarce and the unit of value did not extend to information and into the virtual, digital domain. Plentiful networking capabilities and global eco-system (customers, supplier, distributor, service providers, venture capital, etc.) render the conventional wisdom ineffective at driving business results. Global business eco-systems provide superior value propositions by enabling an MNE to better address a customer need, as it can bring a diverse set of capabilities and innovations to the solution very quickly.

Emerging market MNEs also create their own global business models. For example, they are savvy in *distinctively composing global open resources* in ways that create specific advantages and a unique developmental path for growth. They compete globally by creatively combining these open resources and multiple competition attributes to generate impressive speed and efficiency, and particularly to develop superior price-value ratios appealing to massive consumers in developed and developing countries (Luo & Child, 2015). Underlying this are their market intelligence, organizational resilience, creative use of imitation, and entrepreneurial ability of the firms.

Innovative global business models are not without hurdles and challenges. Developing or innovating a global business model requires fundamental changes that affect many parts of the MNE. Because business model development is a *system wide quest* for the best ways of assembling different pieces of a business, key processes, and important resources so as to generate superior customer value and profit returns (Teece, 2010; Zott & Amit, 2008), it is difficult to plan, orchestrate and execute a global business model that best fits the MNE on one hand and yields a highest possible return on the other. No matter how much autonomy is delegated to product divisions, SBUs, or frontline subsidiaries, executing or innovating a global business model needs global planning, cross-border coordination, headquarters control, top management support, and inter-unit sharing, all of which can encounter unexpected obstacles.

Coordinating processes and resource deployment for implementing global business model is a daunting challenge for almost all MNEs, including those that are established and experienced. Global business model implementation requires both global integration and control by MNE headquarters and local adaptation to incentivize country managers and frontier executives. The integration-responsiveness (I-R) balance is deemed to be even more difficult to accomplish when the business model involves greater geographic coverage (more regions and countries) and business breadth (more business units involved), more critical processes and resources, and/or higher global economy of scale required. In contrast to established MNEs, international new ventures may have some inherent advantages in designing a global business model as they are less constrained by path dependencies and structural inertia.

The adaptation of business models to changing external circumstances across borders and over time is an issue of great contemporary relevance, given the developments in global economy that are outlined here. Saebi, Lien and Foss (2016) examine adaptation as a response to threats and opportunities, and to strategic orientation. They find that path dependency influences firms in adaptation and find that perceived threats are more influential in business model adaptation than are opportunities. Not surprisingly, an orientation towards market development is a stronger stimulus to change than a defensive position with regard to existing markets. There is clearly room for further development in the analysis of the dynamic adaptation of business models.

Global business models are always built on *interconnectivity and synchronization* between headquarters and foreign subunits and among foreign subunits that operate in different regions and countries. This is a major challenge for MNEs because of variations in incentives, strategy roles and resource endowments among different foreign subsidiaries (Bartlett & Ghoshal, 1989; Doz & Prahalad, 1984; Jarillo & Martinez, 1990; Tallman & Koza, 2010). *Cross-border transferability* of both the business model itself and related resources, processes, and values behind the business model can be difficult, limiting the outcome of this model in an extended global setting. Also, even for a global business model that is properly designed, transferred, and implemented, the heterogeneity, dynamism and complexity of institutional and competitive environments in different countries may limit value appropriation from the model. MNEs can design their global business model with full discretion, but they cannot always control, or even predict, every host country's emerging institutional obstacles that impede the process of value delivery and value appropriation from the model.

All things being equal, an MNE's business model is more likely to be transferable to and applicable in other national settings when the firm serves global customers (in contrast to a multidomestic approach in particular). The presence of global customers implies that customer value propositions will be generalizable in different countries. In this case, the geographic reach of the focal business model becomes truly global. Accomplishing this requires the MNE to pursue due diligence and market analysis around the world to ensure the consistency in consumption preference between the customers its business model currently serves and new foreign customers to whom it plans to extend the same business model. The firm otherwise will likely experience undesired consequences. For example, Home Depot presumed that its DIY (do-it-yourself) business model would work in China, the largest housing market in the world. To their surprise, they discovered that many Chinese people buy homes for investment and speculation, not to improve. Further, labor was so cheap in China that most people simply hired a handyman. China is a do-it-for-me market, not a do-it-yourself market. Similarly, Best Buy's big box business model doesn't suit China, either. Chinese consumers don't like big, boxy warehouses far away from a city center, preferring the closer ties of neighborhood retailers.

DISCUSSION: THEORETICAL LENSES FOR GLOBAL BUSINESS MODELS

The business model concept in general does not have a strong theoretical basis. As a comprehensive and configurational approach to describing the role of the individual firm in the economy, it has evolved largely from practice. It does not contradict any models of organization or strategy, but is not fully comprehended in any of them – a major reason that there has been relatively little scholarly research into the phenomenon. The perspective of "fit", both internal to the firm (or network) and between the firm and its environment (both input and output sides), is perhaps the most appropriate logic behind the business model. As a consequence, a global perspective on business models does rely on fit between the global business environment and the MNE's business model, and on fit between the various systems and activities of the MNE. We look first at how the business model fits with theories of international business, which tend to focus on the external environment of the MNE. Table 2 highlights both commonalities and differences between the global business model logic and related IB theories including dynamic capability theory, the I-R (global integration-local responsiveness) framework, the firm-specific advantage perspective, and adapation (context-specific) logic.

----Put Table 2 around here ----

Business models are conceptualised at the level of the firm. This makes the approach closer to the resource based view's rubric (e.g., Barney, 1991) than to internalisation theory, which takes a more ‘global system’ view (Buckley and Hashai, 2004; Casson, 2000, 2016). However, the variant of internalisation theory that examines ‘firm specific (and country specific) advantages’ also helps with a more theoretical casting of business models (Rugman, 1981, Rugman and Verbeke, 2004).

The ‘value proposition’ underlying business models has a theoretical basis in absorption of innovation throughout the firm – not just technological innovation but also marketing and production activities (Buckley and Casson 1976). This is shared with the entrepreneurship literature (Sirmon, Hitt & Ireland, 2007) and with dynamic capabilities models (Teece, 2010). The key theoretical understanding in all these approaches is that the absorption and appropriation of returns from innovation throughout the firm is the driver of dynamic developments – including internationalization (Rugman and Verbke, 2004) and diversification (Buckley and Casson, (2007). The strategic decisions of the firm determine whether these innovations are manifested as global growth in similar activities or as diversification into different business applications. This feedthrough of innovation is seen by all theorists as an important factor in explaining the growth of business. Internalization theorists point to the importance of location factors and internalization/externalization pressures in determining the trajectory of growth, while resource-based theorists focus more on managerial decision making (Sirmon, et al., 2007) and the nature of competition (Porter, 2008). The idea of the value proposition is consistent with the understanding in all these theories that the firm must have a unique or innovative approach to its business, whether technical, organizational, or market oriented – or, in the case of the business model, all of these at once.

As with I-R models, the value propositions of MNEs in international competition can be characterized as global, transnational, or multidomestic to fit their markets. Global business models assume higher harmonization and uniformity of business models across borders, nations and regions. For a given global strategic business unit, a global business model emphasizes economies of scale and offers more opportunities for utilizing and benefitting from "core" capabilities and resources, such as key technologies and innovation, standardized products or their key features, distinctive processes, and heavily orchestrated global value chain activities. In contrast, multidomestic business models are likely to be less common and less productive due to reduced opportunities for capitalizing on the MNE's "core" capabilities that can otherwise be widely shared and synergized. Indeed, a MNE with a multidomestic approach must consider the strong possibility of a different business model for every host market.

Business models in international competition may be transnational. In this case, "core" capabilities (from technologies and design to branding and processes) are centrally controlled and coordinated by parent firms, while the general profit formula (capturing both cost and revenue structures) remains largely homogenous across regions and nations. However, this model forces MNEs to make necessary downstream adaptations in its value proposition, particularly to value delivery in the local market and value capture that is so subject to financial market factors across markets. The fundamental value proposition facing MNEs can thus be challenged by the differential levels of competition and consumer demands internationally. Equally, we can propose that MNEs are impelled to adapt their business models in order to meet differential customer characteristics in different territories. The transnational model advocated by Bartlett and Ghoshal (1989) based on industry sector characteristics remains highly relevant to developing comprehensive value propositions for global business models.

Within a global value proposition, the importance of value creation, that is innovaition in product or process technology to offer unique value to the customer, is perhaps over-emphasized. Value delivery is seen by theorists as a more routine operation – its configuration has been tackled by internalisation theory in terms of location and externalisation pressures, by value chain theorists (Gereffi, 1999) and as an outcome of firm specific advantages favouring firms that have specialised (or invested) in capabilities that propel their logistical reach. However, it is essential for the customer to be able to access the promise of innovation in each market. Value capture is conceptualised as the recoup of the reward for investment, given the firm's ability to design systems that maximise its return. Again, the role of competition is crucial, but equally important are international financial markets and institutions. We submit that value capture is influenced by features of the discontinuities that exist between nations, territories and regions that impact on the free movement of financial assets across borders. Value allocation is largely neglected in the extant theories of business creation and growth, but as the role of supply and distribution networks grows, systematic and fair allocation of rewards will be an essential part of stabilizing value adding systems.

In the digital world, MNEs need to be effective in integrating, streamlining and harvesting the activities under their business models. Digitized globalization makes it easier for MNEs to streamline the execution of business models that are shared or harmonized through networks that spread across borders. Using digital platforms and analytics, for instance, enables MNEs to sell in far-flung but fast-growing markets while keeping virtual teams connected in real time. Firms have new ways to identify and utilize the best suppliers and talent from around the world to make their global or transnational business models more efficient. This, however, is insufficient. Running a global or transnational business model necessitates a streamlined structure within the organization, orchestrating not only with external partners but internal functions. Integrating geographically dispersed global resources and value chain activities is a prerequisite for fulfilling the geocentric strategy over the course of value delivery and accomplishing the integration-responsiveness balance (Birkinshaw, Morrison & Hulland, 1995).

Global or transnational business models propel international managers to give greater weight to such factors as connectivity with other countries, ICT infrastructure, logistics costs, lead time, productivity, consumer preferences, proximity to other operations of the company, and the like. They also push MNEs to locate key activities closer to demand and to make global value chains more open-ended and loosely coupled, with more partners that cooperate in the value chain network. Still, chief among essential capabilities for organizing global or transnational business models is the firm's orchestration capability, which refers to an MNE's ability to pursue opportunities by assembling, organizing, synthesizing and integrating all globally available resources and corresponding activities. Clearly, orchestration capability is firm-specific, difficult to imitate, and proprietary. Orchestration requires the MNE's tacit expertise and involves procedural and process knowledge. It relies on the recognition and management of interdependencies both inside the firm, between foreign subunits, and with external network partners in various countries.

CONCLUSIONS

We have attempted to show how global business models are arrived at, the reasons for variety in these models, and the challenges in conceptualization and implementation of these models. More clarity is needed in understanding the dynamics of evolution of global business models, and theorizing needs to be focused on such a model as an 'equilibrium state', as a plan, or as an idealized relationship between the firm and its international markets.

Business models do represent a point of time outcome of "planned strategy" (Mintzberg,). The extent to which this is a stable equilibrium depends very largely on the external environment and its volatility. Flexibility has to be a major element of strategic planning and therefore of the business model. Trial and error, real options planning and responsiveness to external change have to be included in business models. The external constraints on the viability of models are essential to cutting down the potential variability, and therefore the observed variety of models, in any given time period. Over time, innovation and the creative destruction of old non-viable models will lead to new generations of business models, which will be imitated. These 'follow my leader' models will again only achieve viability in the right environmental circumstances. In no case is 'one size fits all' a suitable mantra for business models across all markets. The dynamics of the innovation, selection and viability of business models provide much of the fascination of their analysis and offer unique opportunities for scholarly research.

The Implications of Global Competition for Business Models

The quest for building global competitive advantages in today's market landscapes, with the pervasive use of information technologies, increased reliance on emerging markets, heightened threats from low-cost rivals, and growing pressure to be locally resilient yet globally integrated, prompts business model innovations. Emerging opportunities, including those at the middle income level and bottom of the pyramid in developing countries, and new challenges, such as the economic slowdown in the developed world, put additional pressure on MNEs to innovate with their business models. While "innovating business models" suggests many potential research questions and has indeed become popular, as evidenced in recent special issues in *Strategic Entrepreneurship Journal* (e.g., Demil, Lecocq, Ricart & Zott, 2015), *Long Range Planning* (e.g., Teece, 2010; Zott & Amit, 2010), and *R&D Management* (e.g., Spieth, Schneckenberg & Ricart, 2014), among others, our understanding of conditions, processes, outcomes and evolution associated with developing, innovating, or executing business models for global competition by MNEs from developed or developing countries has been extremely scant. This dearth is a significant concern and opportunity for global strategy scholars given the importance of this topic on one hand and its deficiency in academic discourse on the other.

The impact on the international business and strategy literatures of business model thinking could be greater. Business model thinking poses the question of whether a firm operating in different countries can utilize just one business model. Where does adaptation of the core model become a separate business model? This directly addresses the integration – responsiveness dilemma in diversified MNEs and poses interesting questions for international business theorizing. The customer value proposition at the core of the model is more likely to be uniform across the MNE than the profit formula (which will vary with local costs and demand patterns). Some key processes can be standardized whilst others such as HR require local modification. Integrating global competitive pressures intobusiness model thinking will make it sharper, more precise and more ameniable to futher theoretical advancement.

The Implications for MNEs

A viable global business model has strong implications for MNEs. It creates a unique and sustained competitive position for the MNE. A successful business model, whether adopted nationally, regionally or globally, tends to have a certain degree of embeddedness within the MNE – that is, the extent to which a particular global business model is constrained or enabled by a set of unique conditions, processes or capabilities processed by the MNE. Although business models can be imitated, such embeddedness affords business model pioneers some competitive advantage for a certain period of time. Moreover, all successful global business models are commonly characterized by the fact that the MNEs are adept in combining multi-country comparative advantages and firm-specific competitive advantages and in integrating global market opportunities and creative customer value proposition. Thus, underlying a profitable global business model is the MNE's innovative proposition that fully utilizes both internationalization and internalization opportunities. This allows MNEs to benefit more greatly than domestic firms from opportunities to achieve revenue generation. It can well be the case, therefore, that a sustained and successful global business model capitalizes on the latent benefits of all three elements (OLI) of the eclectic paradigm (Dunning, 1988).

Further, successful global business models always excel in identifying and exploiting global resources (input side), designing and executing a unique set of global customer value delivery and capture (output side), and orchestrating and integrating internal and external resources as well as geographically dispersed functions and processes (intermediary process). This fits well the new landscapes in global marketplace today, such as the increased availability of global open resources, growing demands for customer responsiveness, and escalated requirements for sharing common functions and related fixed costs within the MNE's worldwide operations. Innovating business models for global competition will have to, in part or in whole, propel speed and responsiveness given today's global competition landscapes. Finally, sustained business models adopted by MNEs tend to be based on and supported by reliable global eco-business systems comprising various partners in inbound, outbound, operations, technology, and professional services (Chesbrough, 2007).

The global business model can provide an overall architecture to specify, support, and integrate the various components of the multinational (or international, or transnational) firm system – its strategy, structure, and resources – while expanding each of these concepts. It also ties these components to the global business environment in order to outline the firm's essential value proposition – how value is created, delivered to the customer, and turned into revenues that can be captured and allocated across the system. It must incorporate concepts of location, both to optimize the productivity of value creation and to most effectively deliver that value to customers. It must both account for and adapt to trans-locational differences and overcome these differences to the extent that they interfere with cost minimization and with technology transfer among locations.

Research Agenda

There is clearly a great deal more for researchers to work on with regard to global business models. The term needs conceptual refinement and theoretical underpinning. There is great scope for qualitative work in examining exactly what top international executives think about when employing the rhetoric of business models in global competition. Going behind the rhetoric is the task of international business and management researchers. This paper has made a start in exploring the rhetoric and reality of business models in the global context. There is much more to do.

One important area meriting further inquiry is the conditions that prompt or press MNEs to launch new or innovate existing business models. Global competitiveness mandates a working global business model that features sustainability, creativity, and reachability.

Moreover, global competitiveness requires MNEs to constantly monitor environmental conditions that affect success of a working global business model, including changes in demand, preference and utility function of target consumers/customers, changes in eco-business systems that support business model implementation, or disrupt innovation or technological changes that may incubate a new business model invented by rivals, to name a few. Future research must theoretically develop and empirically verify these critical conditions that either provoke MNEs to adopt new business models or under which its existing business model will work more profitably. Internal conditions – firm capabilities such as international experience, foreign market dependence, geographic dispersion, and organizing skills of global activities play a pivotal role too in shaping the design and enforcement of the global business model.

Another area warranting future scholarship pertains to the uniformity of global business models – how homogeneous an MNE's working business model is across geographically diversified regions and countries. Unlike domestically run firms, MNEs have many more global-level factors to think through when innovating business models. Why do some MNEs prefer the use of a similar business model in many foreign markets while other MNEs opt for different business models for different markets, or will a productive business model in one foreign market or region transferable to other foreign markets for the firm? Will business model creation or innovation depend on an MNE's international strategies, and how do host country contextualized forces influence business model creation and evolution, for example? Although we tried above to touch some of these issues, our discussion only opens more questions than answers concerning the underlying forces that determine this uniformity or transferability.

Finally, the process – how an MNE's global business model is orchestrated and organized – is among the central issues to be investigated. Some MNEs' global business models are inherited from their original grand global strategies (i.e., they are top-down) while other firms may discover a new business model that works extremely well in one critical foreign market and then transfer this model to many other countries and even global operations (i.e., it is bottom-up). Major research questions include what key factors (local, regional or global) MNEs should and do consider in launching and executing a global system of business models, how liabilities of foreignness, advantages of global connectivity, and spatial transferability may play their part in shaping the transferability of business models across foreign markets, and the specific reasons or compelling forces that lead MNEs to change their business models.

Where building innovative business models is a necessity for modern MNEs, understanding global business models, indeed the business model construct in general, seems to be a rising imperative for strategy researchers. The extensive literature on the topic is both pragmatic and acontextual in large part. The chance to understand both the underlying drivers of business model success and the role of locational differences in in business model creation and performance offers a unique opportunity to strategy scholars.

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Figure 1: Business Models in Global Competition

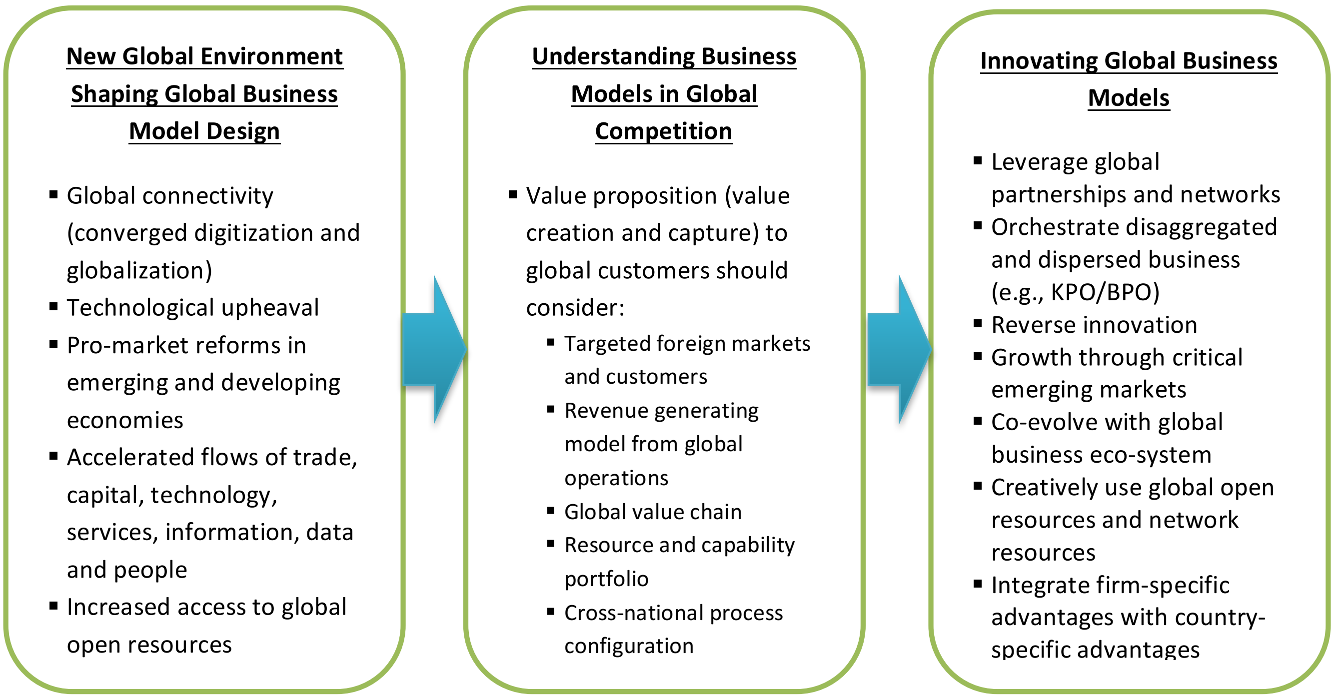

Table 1: Global Business Models and the Multinational Firm

Business Model Activity	The Intent of the Activity	The Activity in the International Marketplace
Value Proposition	The Value Proposition ties the resources and capabilities, strategy, and structure of the business organization together and establishes their relationships to the business environment	The value proposition must be modified to take into account changing conditions from market to market, to include the macro context, the character of customer demand and supplier capabilities, and the nature and intensity of competition
Value Creation	Value Creation is the process of applying firm-specific resources and capabilities to the needs and desires of the customer in a manner that is superior to alternatives	Customer characteristics vary from country to country, reflecting differences in culture, economic development, social structure, national institutions, infrastructure, and geography. FSRC that are valuable in one setting may be of no consequence or even destructive in others
Value Delivery	Value Delivery is the logistical process of bringing the value created by the firm to the customer in a way that satisfies demand without violating regulations, norms or values. It connects the firm's organizational design to the structure of its markets	Value Delivery requires decisions on where to produce, how to transport, market, sell, and service the product. These concerns are as relevant, albeit in a different way, for services as for goods production. Since the cost and availability of international transport as well as the character of host market infrastructure varies greatly from location to location, the possibilities and costs of value delivery vary across all host markets
Value Capture	Value Capture is the process that permits the firm to claim some portion of the excess value created for the customer in the form of economic rents or excess profits or cash flows. It reflects the ability of the strategy to appropriate some consumer surplus	International value capture is affected by inflation and exchange rate exposure, transfer pricing, tax arbitrage, currency restrictions, reinvestment opportunities and requirements, local partners, corruption and a host of other considerations that affect the free movement of money across borders
Value Allocation	Value Allocation is the process by which the firm assigns streams of cash flow to internal and external elements of its value-creating network. It supports the intersection of FSRC and organization design by providing rewards and incentives	As global value chains built around disaggregated, dispersed and often loosely affiliated units have become ubiquitous, allocating captured value in a way that encourages modular units to be both innovative and efficient is essential to maintaining the business model in the face of changing technological, political, economic, and demand conditions

TABLE 2: Comparing Global Business Models with Other IB Perspectives

	Global Business Models (GBM)	Firm-specific advantage logic (FSA)	Adaptation (context-specific) logic	I-R (integration-responsiveness) framework	Dynamic capability theory (DCT)
Differences	▪ GBM emphasizes the means by which an MNE creates customer value and builds its own profits distinctively in global marketplace ▪ GBM brngs together customer value propositions, unique profit formula, key processes, and key resources needed for centrally coordinated yet locally adapted activities ▪ GBM requires unique integration of strategy, customers, markets, operations, processes, and finance	▪ FSA such as technology, brands & market power doesn't guarantee global success – it should be coupled with a business model defining "go to market" and "capturing value" strategies ▪ Unless MNEs offer compelling value propositions to global consumers and set up profitable business systems to satisfy them, FSA cannot transform into profitability ▪ GBM needs understanding of "deep truth" about global consumers and how rivals fail to satisfy them	▪ GBM does require local adaptation. But more critically, it requires core processes, profit formula and value propositions that can be globally transferred, deployed & even standardized ▪ GBM differs from polycentric or context-specific business models in various host markets because it aims to profit from economy of global scale and sharing ▪ Key capabilities and processes needed for GBM must be centrally controlled	▪ I-R view focuses *balance* between global mandates and local mandates, whereas GBM focuses orchestration of customer value proposition, foreign markets, unique processes & sustained profit model ▪ GBM involves more areas of integration than I-R view, orchestrating not only in value proposition, value creation and capture, but in revenue model, market segment, resource portfolio, assets delopment, and process configuration	▪ DCT focuses an ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments, whereas GBM focuses unique value proposition underpinned by this ability ▪ DCT is more sharpened in explaining evolutions and adaptations to market changes, whereas GBM is more focused on unique value propositions to global customers in a relatively stable and sustained way for value appropriation and profit purposes
Complementarity	While GBM differs and extends other IB theories, the latter do help and complement some key dispositions of the former	▪ GBM must be non-imitable in certain respects –unique networks, complicated processes, strong IPR, and unique capabilities needed ▪ FSA significantly supports GBM. GBM is an MNE's proprietary knowledge that combinatively leverages both location-specific and firm-specific advantages	▪ GBM involves market knowledge & experiential knowledge, which can be context specific ▪ Operationally, GBM needs adaptations to host market, institutional & cultural conditions. While core business formula may be the same, price & services may be adapted	▪ GBM involves both global integration and local responsiveness and requires an explicit balance ▪ Different GBM vary in I-R balance. If GBM focuses more on specific market segments, "R" is more imperative. Still, core processes and core capabilities behind any GBM need "I"	▪ The reconfiguring and integration logic provides one of the theoretic bases to explain GBM ▪ Some cross-border resource management and alignment practices in DCT apply to GBM processes ▪ GBM needs unique skills in combining market, resources & process in a changing global setting