Business Models and Cognition
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New Horizons in Managerial and Organizational Cognition

Business Models and Cognition

EDITED BY

KRISTIAN J. SUND
Roskilde University, Denmark

ROBERT J. GALAVAN
Maynooth University, Ireland

MARCEL BOGERS
Eindhoven University of Technology, The Netherlands,
University of Copenhagen, Denmark, and UC Berkeley, USA
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<td>Antonio Daood</td>
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<td>Robert J. Galavan</td>
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<td>Denis A. Grégoire</td>
<td>HEC Montréal, Canada</td>
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<td>Hult International Business School, USA</td>
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<td>Lorenzo Massa</td>
<td>Aalborg University, Denmark</td>
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<td>Somendra Narayan</td>
<td>NEOMA Business School, France</td>
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<td>Ksenia Podoynitsyna</td>
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<td>Yuliya Snihur</td>
<td>Toulouse Business School, France</td>
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List of Contributors

Kristian J. Sund  Roskilde University, Denmark
Llewellyn D. W. Thomas  LaSalle Universitat Ramon Lull, Spain
Anneleen Van Boxstael  Eindhoven University of Technology, The Netherlands
Henk W. Volberda  Amsterdam Business School, University of Amsterdam, The Netherlands
Author Biographies

Charles Baden-Fuller is the Centenary Professor of Strategy and the Leader of the Strategy Group at Cass Business School, City, University of London. He is one of the leading global thinkers on the topic of Business Models. He has made key contributions to the field, particularly on their role as cognitive devices to assist managerial thinking and predict firm behaviour. He has also had a significant impact on policy in mature firms and in firms in the field of High Technology (especially Biotechnology). His honors include being a Senior Fellow at the Wharton School, University of Pennsylvania since 2010, Editor-in-Chief of Long Range Planning 1999–2010, Fellow of the Strategic Management Society, Fellow of Academy of Social Sciences, and Fellow of British Academy of Management.

Emilio Bellini is an Assistant Professor of Leadership and Innovation at the School of Management, Politecnico di Milano, Italy. He is the Co-founder of the LEADIN’Lab, the laboratory for Leadership, Design and Innovation at the School of Management, Politecnico di Milano. He holds a PhD in Management Engineering from the Università di Roma Tor Vergata, Italy. His current research focuses on design-driven innovation in services and the innovation of meaning process.

Sea Matilda Bez is an Associate Professor at the University of Montpellier-MOMA in France and a Member of the research groups Labex Entreprendre, and Montpellier Research in Management. As a Postdoctoral Researcher at the University of California, Berkeley (UC Berkeley), she worked on open-cooperation (open-innovation in collaboration with competitors). She holds a PhD in strategic management from the University of Montpellier. Her research focuses on how competitors can innovate together and share their core competitive advantage transparently.

Marcel Bogers is a Professor of Open and Collaborative Innovation at the Eindhoven University of Technology, at the Innovation, Technology Entrepreneurship and Marketing (ITEM) group (Department of Industrial Engineering and Innovation Sciences). Before, when his work on this volume was conducted, he was a Professor of Innovation and Entrepreneurship at the University of Copenhagen, at the Unit for Innovation, Entrepreneurship and Management (Department of Food and Resource Economics). Currently, he also is an Adjunct Professor at the University of Copenhagen (Faculty of Science) and a Senior Research Fellow
Henry Chesbrough is the Faculty Director of the Garwood Center for Corporate Innovation at the Haas School of Business at UC Berkeley and Maire Tecnimont Professor of Open Innovation at Luiss University in Rome. He holds a PhD in business administration from UC Berkeley, an MBA from Stanford University, and a BA from Yale University, summa cum laude. His book Open Innovation (2003) articulates a new paradigm for organizing and managing R&D; his second book, Open Business Models (2006), extends his analysis of innovation to business models, intellectual property management, and markets for innovation; and his third book, Open Services Innovation (2011), explores open innovation in services businesses. His newest book is Open Innovation Results (2019). He received the IRI Medal of Achievement in 2017.

Antonio Daood is a Postdoctoral Research Fellow at the University of Bologna and cooperates with the Centre for Research in Leadership, Innovation, and Organisation (CLIO) at Luiss University. He obtained his PhD at the Sapienza University of Rome, with a thesis on business model innovation and organizational change in SMEs operating in Made in Italy industries. His current research interests are focused on organizational change, business model innovation, and traditional industries.

Lien Denoo is an Assistant Professor in entrepreneurship at Tilburg University’s Department of Management. She got her PhD from Ghent University and
previously was a postdoctoral scholar at the University of Southern California. Her research interests include technology-market linking in new ventures, entrepreneurship in nascent industries, and the impact of founder characteristics and resource acquisition processes on new venture start-up and growth. Her dissertation received the Heizer Doctoral Dissertation Award in New Enterprise Development from the Academy of Management’s Entrepreneurship division. Her research was published in the *Journal of Business Venturing* as well as in several book chapters.

**Robert J. Galavan** is a Full Professor and holds the Chair in Strategic Management at the National University of Ireland Maynooth. He was the Founding Head of the School of Business at NUI Maynooth and formerly Dean of the Faculty of Social Science. He is a Council Member of the Irish Academy of Management and Chairs the Strategy Significant Interest Group (SIG). He holds an award winning PhD on Strategic Leadership from Cranfield University, a master’s degree in Adult Education and Sustainable Development, and degrees in Strategy and Management.

**Luca Giustiniano** is a Professor of organization studies in the Department of Business and Management and the Director of CLIO (Center for research in Leadership, Innovation and Organisation) at Luiss University, Rome, Italy. He is an Editorial Board Member of the *Journal of Management Studies*. During his career, he has been visiting researcher and scholar at the Viktoria Institute (Sweden), the Sauder School of Business (Canada), the Interdisciplinary Centre for Organizational Architecture (Denmark), the Nova SBE (Portugal), and the Waseda Institute for Advanced Studies (Japan). He co-authored *Elgar Introduction to Theories of Organizational Resilience* (2018). His current research interests are focused on new forms of organizing, organizational paradoxes and metaphors.

**Denis A. Grégoire** (PhD, University of Colorado – Boulder) holds the Rogers-J.A.-Bombardier Chair of entrepreneurship research and is an Associate Professor of Entrepreneurship and Innovation at HEC Montréal, Canada. His research centers on the cognitive processes supporting the early identification of insightful ideas for new innovative products/services and entrepreneurial projects, entrepreneurs’ decision to expand their firm’s activities in foreign locations, and the contributions of business angels and venture capitalists to the growth of high-potential technology ventures. His research has been published in the *Academy of Management Journal, Entrepreneurship Theory and Practice, the Journal of Business Venturing, the Journal of International Business Studies, the Journal of Management Studies, Organizational Research Methods, Organization Science, Small Business Economics*, in addition to a few French-language journals. He is currently an Associate Editor at the *Academy of Management Journal*.

**Fredrik Hacklin** is a Professor of Entrepreneurship at Vlerick Business School in Brussels and Associate Professor (PD) at ETH Zurich. He further serves as a Member of the Board of Directors at Evli Bank Plc and as a Visiting Faculty at
ESMT Berlin. Being a regular speaker and trainer, he has worked with companies such as ABB, Bang & Olufsen, Danone, Deutsche Telekom, Nokia, and UBS and advised organizations such as the European Parliament or the Swiss Federal Department of Foreign Affairs. He holds a PhD in management from ETH Zurich, an MSc in computer science from KTH Royal Institute of Technology Stockholm, and a BSc in computer science and physics from RWTH Aachen.

**Tassilo Henike** is a Senior Innovation Consultant at ITONICS, a leading provider of Innovation Software and Consulting Solutions. Previously, he was a Teaching Assistant and obtained his PhD at the Chair of Innovation Management and Entrepreneurship, University of Potsdam, Germany. He holds an MSc in Business Administration and Engineering from the Technical University Berlin, Germany. His research concerns how cognitive factors affect innovation behavior, particularly focusing on the emergence of new business models. His research is published in international outlets such as *Long Range Planning*, the *Journal of Business Models*, or the *Routledge Companion to Innovation Management*.

**Katharina Hölzle** is a Professor and the Head of the research group IT-Entrepreneurship at the Hasso-Plattner-Institute, Faculty of Digital Engineering at the University of Potsdam. Since 2015, she has been the Editor-in-Chief of the *Creativity and Innovation Management Journal* (Wiley) and editorial board member in various other innovation management journals. She is a Visiting Professor to the University of International Business and Economics in Beijing, to the University of Technology, Sydney, and the Macquarie Graduate School of Management in Sydney. She is a Spokesperson for the Potsdam Graduate School and a Member of the Fulbright commission’s selection committee for PhD grants. She has been the Vice-chair of the Commission of Experts for Research and Innovation (EFI) since May 2019 and a Member of the Hightech Forum of the German Federal Government. Her research focuses on digital entrepreneurship, digital innovation and transformation, and digital ecosystems. She advises young and established companies in the field of technology-driven business model innovation, digitalization, strategic technology, and innovation management and is a mentor to technology start-ups and entrepreneurs.

**Ted Ladd** is the Dean of Research and a Professor of Entrepreneurship at the Hult International Business School, as well as an Instructor of Platform Entrepreneurship at Harvard University. He has participated in five start-up ventures; the most recent was acquired by Google as the basis for its WearOS software. His research focuses on the design of new ventures, especially multisided platforms. He holds a PhD in Management from Case Western Reserve, an MBA from Wharton at the University of Pennsylvania, an MA from SAIS at Johns Hopkins, and a BA from Cornell.

**Lorenzo Massa** is Professor and Director of the Business Design Lab at Business School Aalborg University (AAU), Adjunct Faculty at EPFL-EMBA, at the École Polytechnique Fédérale de Lausanne, and member of the Expert Network
Somendra Narayan is an Assistant Professor of Strategic Management and Entrepreneurship at the NEOMA Business School in France. He holds a doctorate in Strategic Management from the Rotterdam School of Management, Erasmus University, The Netherlands. Prior to that he has also completed a Master of Science in Management of Technology from the Delft University of Technology (TU Delft) in The Netherlands and a Bachelor of Engineering from the National Institute of Technology – Surat in India. Currently, he serves as an Ad hoc Reviewer for the Journal of Management Studies, Journal of Organizational Change Management, the Asian Academy of Management, and the European Academy of Management.

Ksenia Podoynitsyna is an Associate Professor of Data-Driven Entrepreneurship at JADS, the Joint Graduate School of Tilburg University and Eindhoven University of Technology, The Netherlands. Her research focuses on business models and ecosystems for data-driven and sustainable businesses and employs both qualitative and quantitative methods. She codeveloped two tools that allow to map, design, and analyze business models and ecosystems and that were explained in publications in Long Range Planning and Journal of Cleaner Production. She has furthermore published in journals such as Journal of Business Venturing, Entrepreneurship Theory and Practice, California Management Review, Journal of Product Innovation Management, Renewable & Sustainable Energy Reviews, Strategic Organization, and Technological Forecasting & Social Change. She received her PhD in entrepreneurship from the Eindhoven University of Technology.

Jatinder S. Sidhu is a Professor of Strategic Management & Organization at the Leeds University Business School (LUBS), University of Leeds, UK. Prior to joining LUBS, he was affiliated as an Associate Professor of Strategic Management to the Rotterdam School of Management, Erasmus University Rotterdam, The Netherlands, which he joined after obtaining his PhD degree at the Tinbergen Institute, Erasmus School of Economics, Rotterdam, The Netherlands. He has served as the National Representative of the Netherlands (2015–2018) at the European Academy of Management (EURAM), and he currently serves as an Associate Editor for European Management Review, EURAM’s peer-reviewed journal.

Yuliya Snihur is an Associate Professor of Strategy, Entrepreneurship, and Innovation at the Toulouse Business School, France. She teaches and studies
strategy-formation processes in new ventures and the evolution of strategic management in existing firms based on the analysis of firms’ business models. She is researching the role of time and language in strategy-making by applying theories of organizational imprinting, complexity, and cognitive framing. To this end, she uses hand-collected interview data, fieldwork, and longitudinal datasets to build theory. She has published in journals such as *Academy of Management Journal*, *Journal of Management Studies*, *Long Range Planning*, and *Strategic Entrepreneurship Journal*. She serves as Associate Editor at *Long Range Planning* and is a Member of editorial boards at *Strategic Organization* and *Strategic Entrepreneurship Journal*. She received her PhD in management from the IESE Business School (Barcelona, Spain), prior to which she worked in corporate finance.

**Kristian J. Sund** is a Professor of Strategic Management at Roskilde University in Denmark. He is a Co-editor, with Robert Galavan, of the *New Horizons in Managerial and Organizational Cognition* book series. His research currently focuses on business model innovation, uncertainty, and management education and has recently appeared in outlets like *MIT Sloan Management Review* and *Studies in Higher Education*. He holds a Doctorate in Management and Licentiate (MSc) in Economics from the University of Lausanne, and an MA from the École Polytechnique Fédérale de Lausanne (EPFL), where he also completed his postdoc.

**Llewellyn D. W. Thomas** is an Associate Professor at LaSalle Universitat Ramon Lull (Barcelona) and a Visiting Professor at Imperial College Business School (London). His research interests lie in the coevolutionary processes that lead to successful innovation and entrepreneurship. He focuses on digital economy contexts with an interest in ecosystem creation, evolution, and dynamics. He has published in *Journal of Management Studies*, *Strategic Entrepreneurship Journal*, *Industrial and Corporate Change*, *Communications of the ACM*, *Academy of Management Perspectives*, *Business Horizons*, and *Telecommunications Policy*. He has a PhD from Imperial College London, an MBA with Distinction from Cass Business School London, and Honors Degrees in both Law and Arts from Sydney University, Australia.

**Anneleen Van Boxstael** is an Assistant Professor at the Eindhoven Technical University whose research and teaching focus on entrepreneurship, technology innovation, and entrepreneurial strategy. She received the PhD degree in Applied Economics from Ghent University. She takes a special interest in learning and managerial cognition during business founding, in settings of industry evolutions. Currently, she is engaged in innovation studies of music publishing, renewable energy transition, and digitization of business. She also aims to understand programs that shape entrepreneurial ecosystems: user innovations, intermediary organizations, accelerator and incubation programs, communities of practices, advisory and funding programs.

**Henk W. Volberda** is a Professor of Strategic Management & Innovation at Amsterdam Business School of the University of Amsterdam. Moreover, he is
the Director of the Amsterdam Centre for Business Innovation. He has held visiting scholarships at the Wharton School of the University of Pennsylvania, Duke University’s Fuqua School of Business and at Cass Business School in London. He holds various advisory positions such as member of the supervisory board of NXP Semiconductors, The Netherlands, expert member of the World Economic Forum, and fellow of the European Academy of Management. His research on technological disruption, coevolution, new business models, strategic flexibility, and management innovation has led to an extensive number of publications in international peer-reviewed journals including the *Academy of Management Journal, Journal of Management, Journal of Management Studies, Journal of International Business Studies, Management Science, Organization Science*, and *Strategic Management Journal*. He is a Member of the editorial boards of *Long-Range Planning, Journal of Strategy and Management, Management and Organization Review*, and *Organization Studies*. 
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Exploring the Connections Between Business Models and Cognition: A Commentary

Kristian J. Sund, Robert J. Galavan and Marcel Bogers

Abstract

In this paper, we reflect on an expanding literature that links theories of cognition and business models. Managers hold in their mind perceptual constructs or schemas of the business model. These guide the process of distinguishing between options and making choices. Those familiar with business model development will easily recognise that the perceptual construct provides only a summary of the business model, and that a more complex conceptualisation of how business model elements interact is needed. The business model is then much more than a visualisation. It is a schematic model of theorised interaction that is created, shaped, and shared over time. The underlying processes of this creation, shaping, and sharing are cognitive activities taking place at individual, organisational, and inter-organisational levels. Theories of managerial and organisational cognition are thus critical to understanding the acts of business modelling and business model innovation. Here we suggest some of the ways that business model and cognition literatures can be connected, present existing literature, and reflect on future avenues of research to explore the cognitive foundations of business modelling.

Keywords: Business models; business model innovation; cognition; mental maps; open innovation; schema; sensemaking

Introduction

The business model construct has become very popular in the strategy and innovation literatures. The definition of a business model has remained an object of some degree of controversy among scholars, some calling it a description
(e.g. Baden-Fuller & Morgan, 2010), some an activity system (e.g. Zott & Amit, 2010), some a template (e.g. Zott & Amit, 2008), and some a framework (e.g. Schneider & Spieth, 2013), among other similes. What seems to be agreed is that a business model should include not just a description of the model but also a description of how value is created, distributed, and appropriated by the organisation (Teece, 2010; Amit & Zott, 2001). This description can be a simple narrative (a recipe), a stylised archetype (a generic business model, or template, such as the bait-and-hook), or a framework of complementary components, such as found in the popular business model canvas (Osterwalder & Pigneur, 2010). An important point being that it describes not just the elements but also their interactions.

At its most superficial level a business model is a reified representation, a perceptual construct, of the activity system. Its more fulsome form includes a theory of how the business works and how the components of the activity system interact. This conceptualisation of how the constructs interact is the theory of the business model and incorporates ‘stories that explain how enterprises work’ (Magretta, 2002). Stories built with assumptions and hypotheses. Business modelling is not akin to modelling in any physical parallel. The building blocks (constructs) and the mortar (the interactions) exist only as concepts. The labour of building is an activity of the mind. This has led cognition scholars to explore the work of business modelling and business model scholars to seek a greater understanding of managerial and organisational cognition. For example, it has been suggested that the business model can be studied as a form of cognitive structure (Doz & Kosonen, 2010), mental map, or schema (Martins, Rindova, & Greenbaum, 2015; Narayan, Sidhu, Baden-Fuller, & Volberda, 2021 – this volume), of how the firm creates value. Recent studies have also highlighted how managers’ cognitions and sensemaking influence business model design (Egofjord & Sund, 2020; Sosna, Trevisan-Rodriguez, & Velamuri, 2010). Process studies of business model innovation (BMI) have highlighted the role of shared logics in enabling such innovation (Bogers, Sund, & Villarroel, 2015; Egofjord and Sund, 2020) and how the information and knowledge search behaviour of managers affects the type of BMI being pursued (Snihur & Wiklund, 2019).

While these recent studies are encouraging, reviews of the business model literature continue to emphasise the links between business models and cognition as an area in need of further research (Foss & Saebi, 2017, 2018; Martins et al., 2015; Massa, Tucci, & Afuah, 2017). The cognitive underpinnings of business model elements are often mentioned but explicitly studied far less frequently. In this paper, we explore some of the links between theories of cognition and business models. We integrate into this discussion some of the findings of papers published in the fourth volume of the Emerald book series New Horizons in Managerial and Organizational Cognition. We conclude by inviting business model and cognition scholars to jointly explore the open questions of business modelling and cognition.

**Business Models and Cognition**

A look at the domain statement of the Managerial and Organizational Cognition (MOC) division of the Academy of Management suggests just how wide the field
of MOC has become and how many theories of cognition there are. Topics (and associated theories) mentioned in this statement include attention, attribution, decision-making, identity, ideology, information processing, creativity, learning, memory, mental representations and images, categories, cognitive frames, perceptual and interpretive processes, social construction, social dilemmas, and change. All of these and more represent possible theoretical avenues that can inform research on business models and BMI, and that in turn can gain from the study of such business models (Sund, Galavan, & Brusoni, 2018).

First and foremost, there is an emerging cognitive view on business models, which suggests that the business model serves as a form of mental model, logic, or recipe, of how a business creates and appropriates value. For example, Doz and Kosonen (2010, p. 371) argue that business models stand as cognitive structures providing a theory of how to set boundaries to the firm, of how to create value, and how to organize its internal structure and governance.

This view of the business model as a cognitive knowledge structure (or knowledge structure content) is consistent with the more general cognitive view of strategy (Martins et al., 2015). A mental representation of a business model may indeed not be very different than a mental representation of similar constructs, such as a strategy, a market position, a vision, or any other construct representing how the organisation makes money, and how it relates to other actors, such as competitors, customers, or suppliers. The vast MOC literature concerned with such strategy-related knowledge structures can thus inform our study of business models. This literature hinges on the assumptions that such representations really do exist, and that managers create these mental structures to help process information and make decisions (Walsh, 1995). One difficulty is that scholars have thought up multiple competing theories (and labels) of what these structures are and how they develop. For example, mental models are models that are learned about how the world works, and that help managers solve problems (Kieras & Bovair, 1984), and make inferences, such as if-then predictions (Johnson-Laird, 2001). These mental models have by some been termed cognitive or mental maps (e.g. Fiol & Huff, 1992). Schema theory represents a similar approach, suggesting that knowledge structures take the form of schema, that are gradually learned, and are composed of components and their links, which grow stronger over time, as the individual gains experience within a domain of knowledge (Fiske & Dyer, 1985; Lurigio & Carroll, 1985).

Furnari (2015) argues that not just the content but the deeper causal structure of value creation and capture activities are important to the study of mental business models. One important observation from the MOC literature is that the complexity of mental maps within a domain is linked to job experience, and in the case of strategic knowledge, for example, of the business environment (Hodgkinson & Johnson, 1994), to the scope of a manager’s job, such that a higher level manager can be expected to have broader and deeper knowledge. We can hypothesize this to be the case concerning a business model as well. In other words, we
can probably expect that a top manager will have a different and more complex
cognitive representation of the business model than say a middle manager or a
regular employee. In fact, some employees within larger organisations may not
have much knowledge of the business model of the organisation at all. Or at least,
they will not have framed this knowledge in terms of a business model.

Within the mental model literature, it is often assumed that such models can
exist at the team level (Klimoski & Mohammed, 1994). It is also assumed that
when such models are shared and aligned among team members, this will lead
to superior performance (see e.g. the discussion of Mohammed, Klimoski, &
Rentsch, 2000). The business model is regularly treated in the business model
literature as a shared mental model within the organisation. Such a model would
be the result of shared sensemaking processes within the organisation (Daft &
Weick, 1984; Sund, 2013, 2015; Weick, 1995). However, managers throughout
the organisation may not automatically fully share the mental business model. For
example, Egfjord and Sund (2020) find that members of the core business and the
innovation team within an incumbent have different perceptions of environmen-
tal changes, due to exposures to different information environments. The mental
models of different teams within the incumbent are shaped by such differences
in information and are thus not the same. Different mental models regarding the
environment in turn lead to different views on what the business model is and
should be (Bogers et al., 2015; Martins et al., 2015; Amit & Zott, 2015). Within
the incumbent, it is mainly top management, as well as innovation teams within
the organisation, who actively work on business model designs, and innovation,
often employing standardised frameworks and visualisation tools (Täuscher &
Abdelkafi, 2017). They are therefore the natural informants for studies on busi-
ness (mental) models. There is an interesting line of research developing on the
exact role of frameworks, visual tools, and innovation methods in shaping shared
business model cognitions (Massa & Hacklin, 2021 – this volume). Henike and
Hölzle (2021 – this volume) document that such frameworks have a significant
effect on entrepreneurs’ cognition too, stabilising such entrepreneurs’ mental
models. One could hypothesise that formal business model frameworks and busi-
ness model development methods help entrepreneurs test their own presumptions
and hypotheses, providing useful tools for accelerating learning (Ladd, 2021 –
this volume). Over time, the impact of founder identity on the business model
wanes (Van Boxstael and Denoo, 2021 – this volume). These findings may to
some extent be transferable to the incumbent.

The business (mental) model can also be shared outside the firm, for exam-
ple, with key stakeholders (Aspara, Lamberg, Laukia, & Tikkanen, 2013). For
example, Wallnöfer and Hacklin (2013) suggest that the business model serves
as a narrative device when new ventures pitch to business angels, who use this
business model in their opportunity interpretation. Similarly, within one organi-
sation, Podoyntysyna, Snihur, Thomas, and Grégoire (2021 – this volume) show
how analogies and metaphors were used as narrative tools by Salesforce to con-
struct a strong organisational identity. Storbacka and Nenonen (2011) suggest
that market actors’ mental representations of the business model are shared even
more widely across organisational boundaries within the marketplace and can
be deliberately manipulated by individual actors. For example, Snihur, Thomas, and Burgelman (2018) examine how framing can constitute a strategic process that enables business model innovators to shape new ecosystems. Narayan et al. (2021 – this volume) demonstrate that industry insiders and outsiders may hold different schema of the business model. When there is incongruence with existing schemata, innovation originating outside the firm leads managers to search for information on opportunities or threats (Greve & Taylor, 2000).

**BMI and Cognition**

The innovation of business models has been a popular area of research for the past two decades. A shared understanding of the existing business model directs the way executives perceive new ideas for business models in incumbent firms (Sund, Villarroel, & Bogers, 2014; Sund, Bogers, Villarroel, & Foss, 2016). Indeed, process studies of BMI have highlighted the role of shared logics in hindering or enabling innovation (Bogers et al., 2015; Egfjord and Sund, 2020) and how the information and knowledge search behaviour of managers affects the type of BMI (Snihur & Wiklund, 2019). Similar to Daood, Calluso, and Giustiniano (2021 – this volume), who suggest that a strong shared schema of the current business model may in fact be detrimental to radical BMI, Bogers et al. (2015) demonstrate how a strong dominant logic around the existing business model prevented radical BMI in incumbents. BMI is thus largely about schema change (Martins et al., 2015). It is thought that organisational identity can act as a barrier in this context (Snihur, 2018), but efforts at better understanding such barriers have often looked at the innovation process.

The process of BMI is typically hypothesised to involve several stages. For example, Bogers et al. (2015) identify two stages of exploration and exploitation, whereas Jensen and Sund (2017) precede these with a first awareness stage. They suggest that the BMI process starts with managers becoming aware of the need to explore new business models (awareness stage), which are then searched for (exploration stage), before being gradually tested and implemented (exploitation stage). An area that deserves further research is that of what exact circumstances or capabilities lead some incumbents to successfully become aware of the need for radical BMI, while others do not. Teece (2018, 2020) proposes three underlying process-related capabilities of sensing, seizing, and reconfiguring that he views as important dynamic capabilities for BMI. He surmises about sensing that ‘setting up an early-stage business model […] depends as much on art and intuition as on science and analysis’ (Teece, 2018, p. 43). This is to some extent confirmed by Schneckenberg, Velamuri, and Comberg (2019) who find that both problem sensing and intuitional insights help form new business model design logics. In very general terms, sensemaking and learning capabilities seem important for BMI as well (Berends, Smits, Reymen, & Podoyntsyna, 2016; Loon, Otyaye-Ebede, & Stewart, 2020). Finally, Bellini and Catellazzi (2021 – this volume) suggest that successful radical business model innovators can leverage the perception and control of their own cognition, i.e. possess what they call meta-cognition (cognition about cognition).
In the context of incumbent BMI, the stage of business model exploration appears particularly sensitive to competing logics between top management, middle management involved with the operations of the current business model, and innovators trying to explore and implement new business models (Bogers et al., 2015; Egfjord & Sund, 2020). Several studies have documented that such business model exploration may even result in tensions (Chesbrough, 2010; Kim & Min, 2015; Snihur and Tarzijan, 2018; Sund et al., 2016), at least some of which may be assumed to be due to cognitive differentiation, i.e. differences in mental models. According to Jensen and Sund (2017, p. 286),

for the organisation, there is an element of both unlearning and new learning, as business logic changes and transforms during the BMI process [...] The role of leadership moves from sense-making in the awareness stage to sense-giving in the business model exploration stage.

During the final stage of business model exploitation, focus moves away from experimentation and towards implementation and optimisation of the new business model (Jensen & Sund, 2017). At this stage, the perceived uncertainty surrounding the new business model lowers (Bogers et al., 2015), but a new set of dilemmas emerge. Managing a multi-business model organisation implies handling multiple business logics that may be complementary, neutral, or even substitutes in the marketplace (Sund et al., 2016). This leads to organisational complexity (Snihur & Tarzijan, 2018). Kim and Min (2015) point out the importance of complementary assets in determining how best to design the organisation after adding a new business model to the incumbent firm.

Open BMI and Cognition

As business models often focus on the network-level activities of an organisation (Foss & Saebi, 2017; Massa et al., 2017; Zott, Amit, & Massa, 2011), the sources and impact of BMI may also lie within networks, beyond the boundaries of a single organisation (Berglund & Sandström, 2013; Foss & Saebi, 2018; Vanhaverbeke & Chesbrough, 2014). In line with the literature on open innovation, it is therefore relevant to consider openness of BMI by exploring it as ‘a distributed innovation process based on purposively managed knowledge flows across organisational boundaries’ (Chesbrough & Bogers, 2014, p. 17). As such, the process of innovation can take place across organisational boundaries, which from a cognitive point of view implies a need to consider how cognitive processes may span organisational boundaries. The MOC literature has documented shared thinking among strategic groups (Reger & Huff, 1993), referring to such groups as cognitive communities (Porac, Thomas, & Baden-Fuller, 1989). In the context of business models, it has been shown that they can be shared not just across business units but also with external stakeholders (Aspara et al., 2013). There is therefore
an obvious opportunity for the study of inter-organisational cognition in the context of BMI, or what we would call open BMI.

At the same time, given the intimate connection between open innovation and business models, for example, in terms of contingencies (Saebi & Foss, 2015), openness in business model development (or innovation) should be an integral part of how we consider BMI, in which cognition can help to shed light on some of the underpinnings. In an inter-organisational context, we may as such consider open BMI as the process of innovating a business model that spans organisational boundaries. On the one hand, we may better understand this notion by engaging the literature on cognition (as described earlier), and on the other hand, we may better understand it by drawing on what we know from the open innovation literature in relation to cognition.

As described by Bogers et al. (2017), research on open innovation behaviour and cognition not only focuses on individuals who are active in open innovation – often framed in an intra-organisational context – but to some extent also relates to organisational and boundary-crossing activities. Recent efforts have attempted to span across different levels of analysis in the context of open innovation, providing opportunities for integrating cognition and open innovation literature. More specifically, some of the MOC literature could inspire research on open BMI as it relates to cognitive limitations. These include barriers to integrating external knowledge (West & Bogers, 2014), barriers related to employees’ cognitive style (Lowik, Kraaijenbrink, & Groen, 2017), search heuristics (Lopez-Vega, Tell, & Vanhaverbeke, 2016), and so-called syndromes, like the Not-Invented-Here or Not-Sold-Here syndrome (Burcharth, Knudsen, & Søndergaard, 2014). To this strand, Bez and Chesbrough (2021 – this volume) add the Fear-of-Looking-Foolish syndrome as a potential barrier to open BMI.

Concluding Remarks and an Invitation to Explore

The ‘Business Models and Cognition’ volume of New Horizons in Managerial and Organizational Cognition addresses a broad and challenging range of questions at the intersection of the business model, BMI, and MOC literatures. It is not, and could not be, a definitive range. We therefore extend an invitation to both the MOC and innovation management communities to embrace the theoretical and methodological opportunities that now exist for the study of cognition.

While research on the cognitive dimensions of business models and BMI has been increasing, there are numerous gaps in our knowledge. To illustrate these, it may be useful to consider the overviews of theoretical and methodological MOC advances presented in Galavan, Sund, and Hodgkinson (2018). Dual processing theory suggests that decision-making is subject to both conscious and nonconscious cognition. Furthermore, cognition can be ‘cold’ and rational, or it can be ‘hot’ and emotional (Hodgkinson & Healey, 2011; Hodgkinson, Sund, & Galavan, 2018). As discussed in this paper, existing BMI research has almost exclusively been concerned with conscious, cold, and rational cognition, inspired by classical MOC theories of mental mapping (Huff, 1990). The role of emotions...
thus remains largely unexplored, although they have been acknowledged in the general innovation literature (Choi, Sung, Lee, & Cho, 2011). For example, Schneckenberg et al. (2019, p. 431) point out that

in the case of business models, the emotional and affective bondages to long-established value-creating and value capturing activity configurations risks resulting in escalation of commitment and cognitive inertia of senior managers.

The role of emotions could help clarify and deepen our understanding of the cognitive barriers to BMI in incumbent firms, and there are early indications that this may be particularly relevant in the study of family firm BMI (Rau, 2013).

Research has also been limited by context. We noted the importance of business models transcending organisational boundaries as traditional partnerships and also through open innovation. One of these boundaries is across state and private actors, often termed public private partnerships (PPPs). This is an area rich in questions and scarce of answers. Given the need to have shared understanding of business models, how do those with a focus on public value perceive, engage, and build working relationships with those supporting an agenda of private value capture? How are the varying philosophies and objectives negotiated and how is the trust necessary for sharing built? How are the varying philosophies and objectives negotiated and how is the trust necessary for sharing built? How is innovation (with its inevitable failures) that is embraced by the private sector conceptualised in the public sector? Such questions are particularly important for the emerging strand of literature on sustainable business models, where wider objectives are considered than private profit (see e.g. Bocken, Short, Rana, & Evans, 2014; Geissdoerfer, Vladimirova, & Evans, 2018).

We also need to understand failures in BMI, particularly where the model succeeds in some cases and fails in others. Where the innovation fails, is this (simply) to do with differences in firm capabilities, or is it to do with failures in representation and cognition, failures in actioning the representation, or even deliberate misrepresentation of the reality? Business modelling brings with it the challenge that in order to be implemented the models must first be conceived (Chatterjee, 2013). It is in that sense a forward-looking activity with very different learning challenges to the backward-looking gaze of experiential learning (Berends et al., 2016).

Recent work has highlighted that managers involved in system dynamic business modelling develop more accurate representation of their business models (Moellers, von der Burg, Bansemir, Pretzyl, & Gassman, 2019). This brings with it a cognitive gap between the representation of those involved in the modelling and those outside the process. Moellers et al. (2019) describe this gap in terms of levels of model dimensionality, with those involved in the modelling understanding the complexity, and those outside becoming overwhelmed and treating the model as a black box. Using system dynamics holds great promise but brings with it enormous challenges of shared understanding and trust that we know little about.

Similarly, the role of nonconscious cognitive biases during both entrepreneurial and incumbent BMI remains unexplored. For example, what is the role