Journal of Business Models (2021), Vol. 9, No. 1, pp. 29-34

JOURNAL OF BUSINESS MODELS

Open Business Models' Actionability in Europe - EU Competition Policy Analysis

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Abstract

This paper is about contextual policy limitations which are said to restrict the applicability of open business models. In this view, the goal is to analyse the actionability of open business models in the context of European competition policy (EUCOMP). Domains of EUCOMP are systematically reviewed to investigate such limitations 'perspective' in the application of open business models in Europe. Furthermore, the appropriateness of EUCOMP is reflected on in dealing with novel contribution models. In doing so, the paper can yield insights into policy improvement requirements.

Keywords: Open business model, collaboration, European competition policy

Acknowledgements: This work was supported in part by the Flemish Government through FWO SBO project SNIPPET S007619.

Please cite this paper as: Montakhabi, M., Graaf, S. v. d. (2021), Open Business Models' Actionability in Europe - EU Competition Policy Analysis,Journal of Business Models, Vol. 9, No. 1, pp. 29-34

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DOI: https://doi.org/10.5278/jbm.v9i1.5909

Introduction

Benefits of open business models tend to be discussed from the firm's perspective. Currently, research conducted under the open business model umbrella seems to frequently hail these benefits as well as are found to particularly address concepts of opening up innovation and IP management external to firm boundaries. Business models can also be opened up to stakeholders in various ways, such as by incorporating customers in value creation and capture processes or sharing resources with partners (Frankenberger, Weiblen and Gassmann, 2013; Wirtz and Daiser, 2018). Considering the novelty of these collaborative models, it is not a surprise that they may be somewhat of a blind spot in existing policies, or that existing policies, arguably, may work as a barrier to unlock their potentials. Applying open business models, however, might generate negative externalities (such as anti-competitive outcomes) which (also) may not be favoured by all stakeholders. In particular, research has shown that among the various stakeholder groups (Vladimirova, 2019), interests of consumers tend to be at risk. EUCOMP (European Competition Policy) and GDPR (General Data Protection Regulation) are two recent attempts by lawmakers to preserve consumers' interests. The idea behind this strand of policies is to restrict behaviors which put consumers' benefits at risk. The EUCOMP serves this purpose by clarifying anti-competitive collaborations.

Competition is assumed to be necessary to preserve the consumers' interests (Whish and Bailey, 2015). EU competition policy, which is applicable in the European union (European Union, 2007), promotes the maintenance of competition within the European Single Market by regulating anti-competitive conducts by firms or member states to ensure that their activities would not damage the interests of society (Jones and Sufrin, 2016). However, open business models, which make use of novel collaboration patterns for value creation and capture, did not exist (or were not prevalent) when competition policies were set in Europe (Ibáñez Colomo, 2018). Nevertheless, to date only little research has examined the implications of open (collaborative) business models, specifically what consequences they may carry for EU competition policy (Geradin, 2018).

One of the problems that must now be addressed is whether EUCOMP can be applied, perhaps with some modifications, to open (collaborative) business models, or whether new, parallel, or substitute policies are warranted (Rinkinen and Harmaakorpi, 2018).

By analysing the actionability of open business models in the context of European competition policy, this paper contributes to open business model and EU policy literatures. The findings, on the one hand, assist companies to adjust their strategies (regarding collaborations) for the European market, to structure their collaborative activities better, anticipate key challenges, and develop relevant capabilities to benefit from collaborative models. On the other hand, it helps policy makes to incorporate new business models in the competition policy framework in order to unlock the potential benefits of collaboration.

The paper is structured as follows. First, the concept of open business models, their drivers and benefits as well as EU competition policy and its elements are introduced. This is followed by the analysis of three main domains of EU competition policy and their relevance to open business models. Then, the relevant domains of the current EU competition policy to open business models are discussed and key insights are listed. Finally, implications and opportunities for further research conclude the paper.

Approach

Today, open business models are considered extremely useful tools (particularly) for companies to create and capture value in collaboration with external partners (Holm, Günzel and Ulhøi, 2013). The term was initially used in the context of open innovation (Chesbrough, 2003), the concept has received much scholarly attention since then and has increasingly been used more broadly to describe openness in all the aspects of the business model (Sandulli and Chesbrough, 2009). Frankenberger, Weiblen, and Gassmann (2014) classify open business models as a type of business models in which "collaboration of the focal firm with its ecosystem is a decisive or novel element of value creation and capturing" (p. 175).

Several definitions have been proposed for open business models in the literature (Weiblen, 2014). Open business model describes value creation and capturing by "systematically collaborating with outside partners" (Osterwalder and Pigneur, 2010: 109). Gassmann, Frankenberger, and Csik (2017) define an open business model as a business model in which at least two parties, which divide the innovation work, are involved from invention to commercialization of an idea. Ideas or their resulted technologies are sold, bought, licensed or transferred in other ways, at least one time through the process. Nowadays, collaboration with partners is so common that some definitions for business models incorporate partners (Weill and Vitale, 2001), ecosystems (Osterwalder, Pigneur and Tucci, 2005), and networks (Zott et al., 2011). Considering openness as a continuum (Dahlander and Gann, 2010) a business model is labelled as open if either openness is very essential for a business model's success or it is novel compared with the organization's old or industry's dominant logic (Benyayer and Kupp, 2017).

The common element that can be distilled from the most often cited definitions is *collaboration with stakeholders outside the firms' boundaries*.

Nowadays, several forces push organizations towards more open business models and make more collaborations with stakeholders, arguably, inevitable. Growing division of labour, shorter product life cycles, rising cost of technology development (Chesbrough, 2007), blurring of boundaries between industries, prevalence of other successful open business models (Frankenberger et al., 2014), rise of business services, emergence of disruptive technologies (Holm et al., 2013), and increasing willingness and ability of stakeholders to participate in firms' activities (Kortmann and Piller, 2016) are just a few external drivers of open business models.

The drivers may also be internal, such as the need to create and capture new value (Frankenberger et al., 2014), firm size (smaller firms in fast-moving industries more prone to adopt open business models), technology characteristics (Henkel, 2006; Van Der Meer, 2007), and a shock or challenge to the status quo (e.g. a potential merger) (Chesbrough, 2007).

Furthermore, organizations utilize open business models to generate economies of scale, generate shared knowledge, facilitating collective learning (Rojas and Azevedo, 2014), improve the utilization rate of resources, access to markets and knowledge easier (Sandulli and Chesbrough, 2009), access complementary assets (Sandulli and Chesbrough, 2009), and share risks (Ehret and Wirtz, 2010).

The above-mentioned drivers and rewards of open business models highlight the importance of collaboration as a constructive element of business models in the future. Amongst the important questions which arise in the European context are: *How will (or do) European competition policy tackle new forms of collaborations? What policy improvements are required in Europe in response to new collaborative models?*

European competition policy which aims to provide everyone in Europe with better quality goods and services at lower prices, derives mostly from articles 101 to 109 of the Treaty on the Functioning of the European Union (TFEU). The primary authority for applying competition law within the European Union is the European Commission (European Commission, 2007). It guarantees fair competition amongst market actors in Europe and encourages enterprise and efficiency, creates a wider choice for consumers and helps reduce prices and improve quality. The EU competition policy domain covers three main areas: antitrust, merger control, and state aid.

The first element of the EU competition policy, antitrust, deals with anti-competitive practices and abuse of dominance. Abuse of dominance might happen in i) horizontal agreements (e.g. price agreement, output restriction, market allocation, and bid rigging), ii) vertical agreements (e.g. exclusive supply agreement, tie-in, and resale price maintenance), iii) hub and spoke (e.g. horizontal anti-competitive practice through coordination via hub, and iv) exploitative practices (e.g. excessive pricing, discrimination, etc.) or exclusionary practices (e.g. predatory pricing, refusal to deal, etc). The second element of the EU competition policy, merger control, deals with anti-competitive collaborations. These might happen through i) horizontal

mergers involving competitors, ii) vertical mergers involving companies in the vertical supply chain, iii) conglomerate mergers involving firms in different lines of business, and iv) other types of concentration (e.g. acquisition, full function joint ventures, etc.). Finally, the last element of the EU competition policy, state aid, deals with distorted states' interventions.

In order to investigate whether a practice is anti-competitive, EU competition policy makes use of economic models which mainly focus on the analysis of market shares of the actors in a market at a macro-level. While these models were appropriate in the past, the business world is experiencing new dimensions. Not just the policies but the assumptions behind them require to be revisited in response. It is a simplistic assumption just to focus on anti-competitive collaborations between competitors with considerable market share as a threat for consumers' benefits. Hence, here, it is warranted to shed light on the link between open business models and appropriate competition policies.

Key Insights

1. The EU competition policy is based on consumers' perspective. It requires new angles to change the rules of game in a way that potential benefits of collaboration be unlocked,
2. Modern policies are required which can endure at the same time more collaborations and preserve consumers' interests in a way that the generated value being transferred to consumers,
3. Infringement of the EU competition policy is more probable for big companies with considerable market share, thus small and medium enterprises are somehow out of the radar of EUCOMP but big companies should be conservative regarding openness,
4. First and second elements of the EU competition policy (antitrust and merger control) are main areas related to open business models,
5. There might be some collaborations which are not the case of EU competition policy, but their externalities are not on the benefits of consumers, other collaborations other than the ones between competitors should be studied in more detail. Modern collaborations might threaten consumers' benefits.

Discussion and conclusions

This paper has presented a high-level analysis on the appropriateness of EU competition policy to deal with novelties of business models based on new collaborative methods. It systematically explores the applicability of open business models in Europe vis-à-vis the current policy framework. By identifying the drivers of open business models and explaining the benefits which organizations pursue by utilizing collaborative models, the paper highlights the importance of collaborative models. To date, the literature on open business models tends to be mainly focused on a firm's perspective, and hence, here a holistic view is offered which considers contextual policy limitations in the application of open business models. It elaborates how open business models might infringe on the current European competition policy. Furthermore, by highlighting the limitations imposed by European competition policy (which restrict specific types of collaborations), the paper draws practical implications for organizations to consider when strategizing their activities in Europe. Considering the economic models behind the existing EU competition policy, an important implication for companies with considerable market shares is to be more cautious when planning their business model innovation through collaborations. The paper also provides a new perspective on novel collaboration patterns for policy makers. It discusses the requirement of modern policies which at the same time enable more collaborations and protect consumers' interests.

As a result, important questions have been raised about the appropriateness of the traditional policies to treat with innovative collaborative models. It would be fruitful to pursue further research about new models for investigating anti-competitive conducts. Archetypes of 'openness' based on different involved stakeholders is another area for further research.

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