UNIVERSITY OF EXETER
EXETER BUSINESS SCHOOL

INVESTMENT BANKS' BUSINESS MODEL INNOVATION EVIDENCE FROM SAUDI ARABIA

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as a thesis for the degree of

Doctor of Philosophy In Management Studies

November 2017

I certify that all material in this thesis which is not my own work has been identified and that no material has previously been submitted and approved for the award of a degree by this or any other University.

(Signature) …………………………………………………………………………

ABSTRACT

The Investment bank industry is considered to be an essential element of not only the financial system but also the whole economy. Understanding multiple business models employed by multi-services industry such Investment bank is a matter of great significance for Investment banks' executives, regulators and analysts.

In 2008 the business model that had been employed by investment banks for almost two decades vanished due to the global financial crisis. Investment banks were forced to change and innovate their traditional business models.

This research intends to develop a conceptual framework which helps to realize and study investment banks' business models with the core components and related activities. Multiple business models mapping for investment banks is developed to give seniors executives core and possible activities and alternatives to innovate and change various business models for different lines including asset management, brokerage, investment banking and custody services. In addition, the business model (innovation) drivers are investigated to empirically explore the most powerful drivers on investment banks' multiple business models (innovation), potential changes and degree of alteration on its activities for each business line.

For these aims, a systematic literature review was carried to synthesise the recent advancements in the business model literature and explore how firms approach business model innovation. As result, a conceptual framework for business model (innovation) was developed, which encompasses four components value proposition, operational value, human capital and financial value. This framework can be utilized by practitioners as a 'navigation map' to determine where and how to change their business models.

By using the qualitative methodology through semi-structured interviews with 29 senior executives from 10 fully-licensed investment banks in Saudi Arabia and secondary data including financial statements, annual reports and pillar III disclosures, the empirical study mapped the investment banks' multiple business models and identified a business model for each business line. Sixteen activities for each business line were determined to provide core and possible activities and alternatives. This research contributes to our understating of managing and innovating multiple business models in the industry when investment banks should run these multiple business models. The Investment banks' business models are different in terms of business lines, core offerings, clients, key assets, key process, revenue streams and costs structure. Over and above, each line shows diverse business models applied by investment banks.

Furthermore, unlike other studies, this research contributed by investigating drivers that force investment banks to change their existing business models, the degree of changes and which activities did investment banks consider when responding to particular drivers. This study found that clients, crisis and economic changes, rivalry, top management and regulations are the five drivers forcing investment banks to not only embark on change events, but also carry out business model changes in most investment banks' business lines.

DEDICATION

This dissertation is dedicated to:

My parent for the endless encouragement and inspiration they bring into my life.

ACKNOWLEDGMENT

Firstly, all praise and thanks are due to the Almighty Allah for giving me the ability and strength to undertake this thesis.

The guidance was provided by my supervisor Dr. Ben Ramdani is fully appreciated. I am entirely thankful his assistance, patience and insightful reviews from the beginning to the end of this research.

Special thanks are given to my parent for granting me support. Limitless appreciations are provided to them for the efforts they provided throughout my life to look after, educate and motivate.

The heartfelt gratitude's must go to my wife (Nouf) and my sons (Abdulaziz and Muhammad) for sitting with me in the difficult times. The support I got from them was very pivotal in overcoming obstacles.

I would like also to send thanks to my brothers and sisters for their love and hopes to accomplish my thesis.

This study would not have been possible without the involvement of participants from Saudi Arabian Investment banks. Their time, honesty and encouragement were vital to make this study viable, original and valuable. So my full appreciation should go to those participants who offered me the opportunity to make interviews.

Finally, I would like to send my acknowledgments to all of my friends, colleagues and the University of Exeter Business School members for their helps during the time of the PhD journey.

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LIST OF ABBREVIATIONS

ABS	The Association of Business Schools
AP	Authorised Person
APs	Authorised Persons
AUM	Assets Under Management
BM	Business Model
BMI	Business Model Innovation
BMs	Business Models
CAGR	Compounded Annual Growth Rate
CEO	Chief Executives Officer
CFO	Chief Financial Officer
CIO	Chief Investment Officer
CMA	Saudi Capital Market Authority
COO	Chief Operation Officer
DPM	Discretionary Portfolio Management
E.BUSINESS	Electronic Business
EDBI	Ease of Doing Business Index
FDI	Foreign Direct Investment
G20	Group of Twenty Forum
GAZT	General Authority of Zakat and Tax
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GEI	Global Entrepreneurship Index
GII	Global Innovation Index
GOI	Global Opportunity Index
ICT	Information and Communications Technologies
IPO	Initial Public Offering
IPOs	Initial Public Offerings
KSA	Kingdom of Saudi Arabia
MD&A	Management's Discussion and Analysis
MENA	Middle East and North Africa
OP	Operational value
P/E	Price/Earnings Ratio
PCV	Perceived Customer Value
QFIs	Qualified Foreign Investors
R&D	Research and Development
SAMA	Saudi Arabian Monetary Authority
SAR	Saudi Arabian Riyal
SEC	The U.S. Securities and Exchange Commission

SLR	Systematic Literature Review
SO	Strategic Objectives
ST	Strategic Themes
TADAWUL	The Saudi Stock Exchange
US$	United States Dollar
U.S	United States of America

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

Pressure to open new markets, the economic downturn, and the rise of innovative technology-based (low cost) competitors are forcing firms to change their current business models (BMs) or fundamentally design new ones (Teece, 2010; Casadesus-Masanell & Ricart, 2010). This is prevalent in investment banking, especially following the financial crisis of 2008 that forced Investment banks to entirely abandon their old business models (Teece, 2010).

Five of the largest independent investment banks lost their independence in 2008: Bear Stearns and Lehman Brothers failed, Merrill Lynch was taken over by Bank of America, and Goldman Sachs and Morgan Stanley became bank holding companies to qualify them for bailout money (Crotty, 2009). One of the main reasons for their failure could be attributed to the ambiguity and complexity of their business models. Following the financial crisis, investment banks were forced to entirely abandon their old business models (Teece, 2010). In addition, regulators were encouraged to understand banks’ business models and risk-taking incentives that are not combined in the existing risk-management techniques (Altunbas et al., 2011). The failure of several banks was attributed to the inadequate attention of the bank’s business model and associated risks (FSA, 2011).

Woods (2012) claims that the effective risk management and governance guidelines did not prevent the bankruptcy of Lehman Brothers since the control system is highly linked to business models. This demonstrates that business models are linked to a wide range of activities within banks and understanding them is necessary not only for innovation or competitive strategy, but also to protect banks by understanding the risks associated with new initiatives. The regulatory framework for banking has been reformed to enhance aspects of liquidity and capital. The reforms do not take into account banks' business models and neglecting them leads to a risk of default (Blundell-Wignall et al., 2014a). Additionally, they have uneven effects on different banks due to running dissimilar business models involves specific risks for each bank (Blundell-Wignall et al., 2014b). The increasing interest in business models is not suprising. According to Teece (2010), a business model "*Defines the way the enterprise creates and delivers value to customer … and how it will capture a portion of the value that it delivers ... and then captures a portion of this value … to make profit and grow*."According to IBM (2006), about 98% of companies are reported to have modified their existing business models, and seven out of 10 companies are involved in business model innovation (BMI), and companies whose operating margins had grown faster than their competitors' over the period of five years were twice as likely to pursue business model innovation. As a result of this, companies are introducing major changes to their current business models.

However, companies often struggle to envisage how to carry out their business model innovation (Grönlund *et al.*, 2010; Taran et al., 2015). Existing academic and practitioners' tools and frameworks fail to engage executives and could be characterised as too generic and simplistic. Investment banks are a particularly interesting context here; it runs multiple business models for different lines, and its senior management struggles to: define the different components and activities of their business model, identify the components that constitute each of its business activities, choose the tools and/or frameworks that could be applied to multiple business model(s), understand the forces that should be taken seriously when innovating their business model(s) and determine the actions and/or changes that must be taken in response to these forces.

This chapter will give a snapshot of this research starting with a background that includes an overview of the current knowledge of the topic and the existing gaps. Then, it will highlight the significance of carrying this research and its possible contributions to the literature. The aims, objectives and research questions will then be presented, followed by an outline of this research methods and the structure of the thesis.

Studying business model innovation in Saudi investment banks is interesting for several reasons. Since 2003 and the introduction of CMA (Capital Market Law 2003), the Saudi financial market has undergone a number of changes to the legislative and regulatory environment forcing investment banks to change their business models. In addition,, this is a highly competitive environment where 56 APs exited the industry since 2005 leaving only 88 APs in operation in 2014 (CMA, 2007,2015a). It will be interesting to study how existing APs are changing their business models to survive in this market. The investment banking delivers multi-services including asset management, brokerage, investment banking, and custody services. It will be interesting to study the different business models in a single investment bank adopted to deliver different services. Last but not least, , this sector is a huge market in terms of the invested value, assets under management, and trading values.In 2014, the total value of funds under management is US$ 43.2 billion (CMA, 2015a) and US$ 572 billion was traded in the stocks exchange (Tadawul, 2015d).

1.2 BACKGROUND

The business model (BM) literature is booming and academics started to pay attention to this area after the emergence of e-business early 2000s (e.g. Al-Debei & Avison, 2010; Magretta, 2002; Ehret *et al.*, 2013), new economy (Wirtz et al., 2016) and the internet-based business (Markides, 2013). Understanding business models gives investors an opportunity to understand how companies operate and profit. After the collapse of Enron Corporation in 2001, the term has become more popular in the capital markets when the Securities and Exchange Commission (SEC) In the United States in 2002 required from firms to disclose and discuss their business models in the report of management's discussion and analysis (MD&A). The rules state that:

> *"A company must discuss its results of operations, liquidity and capital resources and other information necessary to an understanding of the company's financial condition or changes in financial condition. A well-prepared MD&A discussion focuses on explaining a company's financial results and condition by* ***identifying key elements of the business model and the drivers and dynamics of the business****, and also addressing key variables." (SEC, 2002)*

Even though numerous scholars argue that research in business models originated from entrepreneurship and e-business literatures; given that its purpose is the creation and growth of new ventures (Ehret *et al.*, 2013), the literature has flourished and remains influential in the business strategy discipline (Teece, 2010; Chesbrough, 2010; Mason & Spring, 2011).

From reviewing the most frequent business model definitions, it appears that there is no consensus among scholars. For instance, business model is described as a representation (Shafer *et al.*, 2005; Wirtz et al., 2016), a system (Amit & Zott, 2012), an element (Johnson *et al.*, 2008), a logic (Baden-Fuller *et al.*, 2008), a story (Magretta, 2002), an architecture, (Timmers, 1998) or a way (Demil & Lecocq, 2010), and a design (George & Bock, 2011). However, it is clear that the most popular definitions tend to include "value" as their core pillar (see Amit & Zott, 2001; Baden-Fuller & Haefliger, 2013; Casadesus-Masanell & Zhu, 2013; Chesbrough & Rosenbloom, 2002; Iansiti & Lakhani, 2014; Magretta, 2002; Morris *et al.*, 2005; Osterwalder & Pigneu, 2010; Shafer *et al.*, 2005; Teece, 2010). Although there is no common characterisation of what constitutes a 'business model', many scholars agree that it can be viewed as an activity system made up of a number of interdependent activities (e.g. Afuah, 2004; Markides, 2006; Casadesus-Masanell & Ricart, 2010; Zott & Amit, 2010; Zott *et al.*, 2011). The choice of these activities determines the overall performance of firms (Markides & Sosa, 2013). These activities govern the manner a firm "does business" (Amit & Zott, 2012).

There has been a debate amongst business and strategy scholars regarding the difference between strategy and business models (Casadesus-Masanell & Ricart, 2010; Khanagha *et al.*, 2014). Although the boundaries between strategy and business models have not yet been established (Al-Debei & Avison, 2010), they are essential for academics to further future research and for executives to practically distinguish between two notions (George & Bock, 2011).

Some scholars claim that business models are distinctive from strategy (Magretta, 2002; Morris et al., 2005; Shafer et al., 2005). Coombes & Nicholson (2013) further argue that business models help to analyse strategic alternatives chosen by firms. This is supported by statistical evidence of a dataset consisting of detailed information pertaining to the business models of 190 entrepreneurial companies listed in European and U.S. during 1996-2000, showing that business model and strategy are unalike (Amit & Zott, 2012). Generally, strategy focuses on competition environment (George & Bock, 2011) and strategy choice is more granular (Teece, 2010) while business model focuses on opportunities resulted from strategic selection (George & Bock, 2011) and is more generic (Teece, 2010).

It is widely recognised that innovation in business models is of vital importance to firm survival, business performance, and as a source of competitive advantage (Demil & Lecocq, 2010; Chesbrough, 2010; Amit & Zott, 2012; Baden-Fuller & Haefliger, 2013; Casadesus-Masanell & Zhu, 2013). Although interest in this area of research has increased, the literature is fragmented and does not coherently depict business models. This fragmentation has led to a complete lack of an agreed theoretical basis for studying business models in business, management, economic and organizational studies (Teece, 2010). Several theories have contributed marginally to understanding the business model phenomena including resource based view (DaSilva & Trkman, 2014), dynamic perspective (Demil & Lecocq, 2010), activity system perspective (Zott & Amit, 2010), generic competitive advantage (Eyring *et al.*, 2011), causality theories (Casadesus-Masanell & Ricart, 2010), the opportunity-centric reconceptualization (George & Bock, 2011), practice theory (Mason & Spring, 2011), learning theory (Sosna et al., 2010) and transaction cost economics perspective (DaSilva & Trkman, 2014). Different frameworks have been developed to represent business models.

The variety of disciplinary and theoretical foundations through which business model innovation is examined further contributed to the fragmentation of the literature. Scholars have drawn on perspectives from entrepreneurship (e.g. George & Bock 2011; Morris et al., 2013), e-business (e.g. Amit & Zott, 2012; Huarng, 2013), information systems (e.g. Al-debei & Avison, 2010), innovation management (e.g. Rajala et al., 2012; Dmitriev et al., 2014), marketing (e.g. Sorescu et al., 2011; Mason & Spring, 2011) strategy (e.g. Demil & Lecocq, 2010; Sinfield et al., 2012) and technology (e.g. Baden-Fuller & Haefliger, 2013; Xiaobo et al., 2010). This fragmentation is also deepened by focusing on different types of business models operating in different context.

Studies have explored different types of business models such as digital business models (e.g. Weill & Woerner, 2013), service business models (e.g. Kastalli et al., 2013), social business models (e.g. Yunus et al., 2010), and sustainability-driven business models (e.g. Esslinger 2011; Kiron et al., 2013a). Studies have also examined different industries such as airline (Lange et al., 2015), manufacturing (Landau et al., 2016), newspaper (Karimi & Walter, 2016), retail (Brea-Solís et al., 2015), and telemedicine (Peters et al., 2015). This revealed that business models are investigated through particular purposes in which frameworks were developed or used might not valid on different context.

Static and transformational approaches have been used to portray business models (Demil & Lecocq, 2010). The former refers to viewing business models as constituting of core elements that influence business performance at a particular point in time. This approach offers a portrait of the business model elements and how they are assembled, which can help in understanding and communicating a business model (e.g. Yunus et al., 2010; Eyring et al., 2011; Mason & Spring, 2011). The latter, however, focuses on innovation and how to address the changes in business models over time (e.g. Sinfield et al., 2012; Girotra & Netessine, 2014; Landau et al., 2016). Some researchers have identified the core elements of business models *ex ante* (e.g. Demil & Lecocq, 2010; Xiaobo et al., 2010; Huarng, 2013; Dmitriev et al., 2014), while others argued that considering elements *a priori* can be restrictive (e.g. Casadesus-Masanell & Ricart, 2010). Interestingly, some researchers found a middle ground where elements are loosely defined allowing flexibility in depicting business models (e.g. Zott & Amit, 2010; Sinfield et al., 2012; Kiron et al., 2013b).

Some scholars have articulated the need to build the business model innovation on more solid theoretical grounds (Sosna et al., 2010; George & Bock, 2011). Although the vast majority of the studies are not explicitly theory-based, a few studies partially used well established theories such as the resource-based view (e.g. Al-Debei & Avison, 2010) and transaction cost economics (e.g. DaSilva & Trkman, 2014) to conceptualise business model innovation. Other theories such as activity systems perspective, dynamic capabilities and practice theory have been used to help answer the question of how firms change their business models. Using the activity systems perspective, Zott and Amit (2010) demonstrated how innovative business models can be developed through the design themes that describe the source of value creation (novelty, lock-in, complementarities, and efficiency) and design elements that describe the architecture (content, structure, and governance). In addition, Chatterjee (2013) used this perspective to argue that firms can design innovative business models that translate value capture logic to core objectives, which can be delivered through the activity system.

Dynamic capability perspective frames business model innovation as an initial experiment followed by continuous revision, adaptation and fine-tuning based on trial-and-error learning (Sosna et al., 2010). Using this perspective, Demil and Lecocq (2010) show that 'dynamic consistency' is a capability that allows firms to sustain their performance while innovating their business models through voluntary and emergent changes. Also, Mezger (2014) conceptualised business model innovation as a distinct dynamic capability, and that this capability is the firm's means of sensing opportunities, seizing them through the development of valuable and unique business models, and reconfiguring the firms' competences and resources. Using aspects of practice theory, Mason and Spring (2011) looked at business model innovation in the recorded music industry and found that it can be achieved through various combinations of managerial practices.

Prior to 2010, conceptual frameworks focused on the business model concept in general (e.g. Chesbrough & Rosenbloom, 2002; Osterwalder et al., 2005; Shafer et al., 2005) apart from Johnson et al. (2008), which is one of the early contributions to business model innovation. To determine whether a change in existing business model is necessary, Johnson et al. (2008) suggest three steps that were precisely summarised by Eyring et al. (2011) as: "*Identify an important unmet job a target customer needs done; blueprint a model that can accomplish that job profitably for a price the customer is willing to pay; and carefully implement and evolve the model by testing essential assumptions and adjusting as you learn*." (p. 90).

Although several frameworks have been developed since then, our understanding of business model innovation is still limited due to the static nature of the majority of these frameworks. These frameworks do not capture the dynamism and changes occurring to elements and/or activities where alternative business models can be explored (e.g. Sinfield et al., 2012; Chatterjee, 2013; Huarng, 2013; Morris et al., 2013; Dmitriev et al., 2014; Girotra & Netessine, 2014). Other frameworks ignore value proposition (e.g. Zott and Amit 2010), ignore value creation (e.g. Dmitriev et al., 2014; Michel, 2014), and/or ignore value capture (e.g. Mason & Spring, 2011; Sorescu et al., 2011; Storbacka, 2011). Some conceptualisations do not identify who is responsible for the innovation (e.g. Casadesus-Masanell & Ricart, 2010; Sinfield et al., 2012; Chatterjee, 2013; Kiron et al., 2013a).

In practice, companies do not change their business models randomly, but there are forces responsible for shaping their environment and pushing companies to change and/or abandon their business models. To enable a comprehensive understanding of business model innovation, drivers of business model innovation should also be studied to determine how companies respond to threats (Sosna et al., 2010), mitigate risks, deal with challenges and pressures (Blank, 2013), and take advantage of new opportunities (Casadesus-Masanell & Zhu, 2013; George & Bock, 2011). Surprisingly, very little is known on which drivers influence a firm to innovate its business model and what changes does the firm undertake as a consequence.

Therefore, there is a need to synthesise the literature and provide a theoretical framework that moves us towards a more comprehensive understanding of how firms change their business models. In Teece's (2010) words: "*A helpful analytic approach for management is likely to involve systematic deconstruction/ unpacking of existing business models and an evaluation of each element with an idea toward refinement or replacement*" (pp.188).

1.3 RESEARCH GAPS

Since the first comprehensive review of business model literature was carried out by (Zott et al., 2011), four recent systematic reviews were published including (George & Bock, 2011; Schneider & Spieth, 2013; Klang et al., 2014; Wirtz et al., 2016). These reviews, however, did not focus on components and activities associated with business model innovation. To address this gap, the literature (for the period 2010-2016) will be reviewed from multiple perspectives. This review includes peer-reviewed article from four databases: EBSCO Business Complete, ABI/INFORM, JSTOR, and ScienceDirect. Unlike previous reviews, this review does not only include "Business Model(s)" as the main search term, but also includes terms such as "value proposition", "value creation" and "value capture" in the title, abstract, or keywords. From our review of the literature, a number of research gaps have been identified as follows:

- The current business model innovation frameworks tend to focus on value proposition, value creation, and/or value capture. Limited studies have looked all of these value elements together especially that 'value' is considered a core pillar of most business model definitions.

- A lack of business model representation that details business model components, activities and highlights possible alternatives.
- No studies have explored the links between the drivers forcing firms to innovate their business models and the resultant changes of components and/or activities.
- Limited studies have looked at firms operating multiple business models such as multi-services investment banks.

Addressing these gaps does not only enable us to better understand how companies undertake business model innovation, but also provide a roadmap that could be used by companies to explore alternative business models.

1.4 SIGNIFICANCE OF THIS RESEARCH

Companies are exposed to competitive threats that extend beyond their current industry boundaries (Amit & Zott, 2012). New and disruptive business models not only threaten a company's industry position, but may also undermine its survival. Thus, business model innovation is critical for four reasons:

1. It is no longer sufficient to pursue product innovation since the design and product lifecycle are shrinking. Rather, a combination of making the right choices over a particular period of time and having a good grasp of the business model is becoming critical for business success (Sainio et al., 2012).
2. Business model innovation is of particular importance to academic researchers, entrepreneurs and managers alike as they possess the potential of delivering future value for the organization. Numerous business model configurations could be created to exploit opportunities as a result of deregulation, changing customer preferences, and technological advances (Casadesus-Masanell & Zhu, 2013). Such opportunities are not fully exploited by companies (Amit & Zott, 2012).
3. Business model innovation plays a major role in determining the success of leading organizations (Markides & Sosa, 2013). The performance of an

organization is significantly affected as a result of the business model it wishes to adopt and pursue (Velu & Stiles, 2013). Thus, business performance of various organizations competing in the same industry can be attributed to their actions regarding business model innovation.

4. Business model innovation tools can be used by organisations in the design and implementation of new strategies. Organisations can utilise these tools to understand competitors' actions before implementing new business models (Casadesus-Masanell & Llanes, 2011; Casadesus-Masanell & Zhu, 2013).

1.5 A STATEMENT OF QUESTIONS, AIMS AND OBJECTIVES

From reviewing the literature, a number of questions remain unanswered including:

- What value proposition, value creation, and/or value capture components can be included in the study of business model innovation?
- What activities come under each of the identified business model components?
- What are the drivers of business model innovation in firms managing multiple business models?
- Which business model components and/or activities change as a result of business model innovation?

This research aims to answer the research questions identified earlier in order to address the gaps in our current understanding of business model innovation. This will be done through exploring how investment banks carry out business model innovation.

To achieve this aim, the following objective must be accomplished:

- Develop a framework of business model innovation that details components and business activities that could be used to create, capture and deliver a firm's value proposition.
- Map investment banks' multiple business models and explore the core activities and possible alternatives when innovating their business models.

- Identify the drivers forcing investment banks to innovate their business models and highlight the changes associated with business model components and/or activities.

1.6 RESEARCH METHOD

To map investment banks' multiple business models, identify drivers forcing business model innovation, and highlight the changes associated with business model components and/or activities, in-depth case studies we conducted for major investment banks' in Saudi Arabia. The selected investment banks are full-licensed authorised banks by Saudi Capital Market Authority (CMA). Data for each case was collected through semi-structured interviews with key executives including a chairman of the board, chief executive officer (CEO), chief financial officer (CFO), head of asset management, head of brokerage, head of investment banking, head of custody services, chief investment officer (CIO), head of development and strategy, and head of sales among others. Twenty nine executives from ten investment banks were interviewed for this study. Initial Coding and focused coding were used in the first round of analysis to identify the main themes, which represents the theoretical components and drivers. In the second round of data analysis, theoretical coding was used to find the links between new themes and theoretical components. In parallel, secondary data sources including CMA reports, annual reports, financial statements, and websites were utilized to complement the collected primary data.

1.7 STRUCTURE OF THIS THESIS

The thesis will be presented in eight chapters according to the following structure:

Chapter 1: Introduction

This introductory chapter presents a general background of this research. It covered the topic of business models in general, provided a brief overview of the current status of the literature, and identified existing knowledge gaps. Next, the significance of this research was highlighted, followed by the research questions, aims, and objectives. Finally, this chapter concluded with a brief description of the methodological approach employed and an overview of the thesis structure.

Chapter 2: Investment Banks in Saudi Arabia

This chapter will present an overview of the Saudi financial services in general and investment banks industry in particular focusing on two key areas First, it will highlight the current status of Saudi Arabia financial market including the legal structure, economic factors, growth, competitiveness, future vision and business environment. Then, it will focus on the financial services' regulations of practising business, financial institutions, capital market, and competitive environment.

Chapter 3: Literature Review

The aim of this chapter is to develop a framework of business model innovation that details components and business activities that could be used to create, capture and deliver a firm's value proposition. This chapter will systematically review the business model literature. Different business models frameworks, guidelines, components and activities will be analysed, and the various perspectives, contexts, and theories used will be outlined. It will discuss each component in the framework with the activities associated with business model innovation, and the drivers forcing firms to innovate their business models will be reviewed.

Chapter 4: Research Methodology

This chapter describes the research design and strategy used to collect and analyse the data in order to answer the research questions. The research philosophy and paradigm will be discussed. A justification for the research approach and qualitative research requirements are presented. Then, the chosen research strategy, design and method are highlighted and justified. Following that, it will discuss the data collection plan that has been used to carry out this research as well as the ethical considerations considered in data collection. This chapter will conclude with a highlight of the secondary data used and techniques used in qualitative data analysis.

Chapter 5: Findings and Analysis

This chapter aims to discuss the findings from multiple-case studies of investment banks' business model innovation in Saudi Arabia, and offer detailed analysis of these findings. Our findings will be presented at two levels. The first is at the investment bank level where all business lines are revealed. This chapter will empirically test the business model innovation framework by studying the components and activities of each business line in investment banks. Here, a comprehensive map of investment banks' business models will be illustrated. The second is at the business line level where the drivers and the associated changes are outlined for each business line including asset management, brokerage, investment banking and custody services.

Chapter 6: Discussion and Interpretation

This chapter will discuss the findings to understand how investment banks innovate their business models. The core activities and possible alternatives will also be discussed in order to understand the homogeneity and heterogeneity among business models activities for all business lines. Moreover, the drivers forcing investment banks to innovate their business models as well as the resulting changes for each business line will be highlighted.

Chapter 7: Conclusion and Future research

This chapter will outline the contributions, implications and limitations of this study, as well as proving directions for future research. It will begin with an overview of the research, followed by a discussion of the key contributions and study limitations. Next, highlighting directions for area of future research are outlined. It will conclude with addressing the implications for investment bankers, analysts and regulators.

CHAPTER 2: INVESTMENT BANKS IN SAUDI ARABIA

2.1 INTRODUCTION

This chapter explains the reasons behind choosing Saudi Arabia and investment banks as a context to study business model innovation. Firstly, this chapter will provide an overview of the country that includes the geographical and legal framework, Saudi vision 2030, economic indicators, business environment, and global indicators in order to justify choosing Saudi Arabia as a context for this study. It will then justify choosing investment banking sector to study business model innovation, including the Saudi capital market, regulatory body, Saudi stock exchange, investment bank industry and investment banks business lines.

2.2 SAUDI ARABIA OVERVIEW

2.2.1 GEOGRAPHY AND LEGAL FRAMEWORK

The Kingdom of Saudi Arabia was founded in the last century in 1932 by the late and revered King Abdul-Aziz bin Abdurrahman Al Saud (Unification of the Kingdom of Saudi Arabia 1932). With regard to its land mass, Saudi Arabia is the second-largest state in the Arab world and accounts for the majority of the Arabian Peninsula's land mass with an overall area of 2.25 million Km2 (World Bank Group, 2015). The country borders the nations of Iraq and Jordan on its north-eastern edge and by the Arabian Gulf, Kuwait, Qatar and the UAE (the United Arab Emirates) in the East, Oman in the South-East and Yemen in the South West (Euromonitor International, 2015).

As a monarchy, Saudi Arabia governmental framework is led by the King. The working of the judicial elements is founded on the Islamic law of Shariaa, as well as the basic governing laws of the nation. The King of the nation sits at the head of the judiciary too, though the autonomy of the judiciary is guaranteed by constitutional law (Basic Law of Governance 1992). From October 2007, the judiciary and the courts of the country were reordered (Law of the Judiciary 2007). The commercial courts, dealing with corporate and business matters, have to rule on issues concerning trade disputations, and their rule can be appealed against with the use of both the Supreme

Court and the lower courts of appeal. The law also facilitates alternative solutions to issues concerning adjudicated commercial in the form of arbitration (Law of the Judiciary 2007).

2.2.2 SAUDI VISION 2030

Saudi Arabia economic growth and prosperity has been turned into a vision of achieving a vibrant society, a thriving economy and an ambitious nation by 2030 (Council of Economic and Development Affairs, 2016). Table 2.1 below summarises the key goals and foundations of this vison.

Table 2.1 Saudi Arabia 2030 Vision Themes and Key Goals

Themes	Key goals
A Vibrant Society	• Doubling the number of heritage sites registered with UNESCO • Three Saudi cities in the top-ranked 100 cities worldwide • Increasing household internal spending on cultural and entertainment from the current level of 2.9% to 6% • Increasing people exercising at least once a week from 13% to 40% of people • Raising the position from 26 to 10 in the Social Capital index • Increasing the average life expectancy from 74 years to 80 years • Increasing capacity of Umrah visitors from 8 million to 30 million yearly
A Thriving Economy	• Lowering the unemployment rate to 7% from current ratio 11.6% • Increasing SME contributions to 35% from current ratio 20% of GDP • Moving to 15th largest economy globally from the current rank the 19th • Increasing the localization of oil and gas sectors to 75% from current ratio 40% • Increasing the Public Investment Fund's assets to over 7 trillion from current value 600 Billion Saudi Riyals (SAR) (US$ 160 Billion) • Raising the position in the Global Competitiveness Index from 25 to the top 10 countries • Increasing foreign direct investment to 5.7% of GDP from current ratio 3.8% • Increasing the private sector's contribution to 65% of GDP from current ratio 40% • Raising the global ranking in the Logistics Performance Index from 49 to 25 • Rising the share of non-oil exports in non-oil GDP to 50% from current ratio 16%
An Ambitious Nation	• Increasing non-oil government revenue to one trillion from current level 163 Billion SAR (US$ 43,5 Billion) • Rising the position on the Government Effectiveness Index, from 80 to 20 • Raising the position on the E-Government Survey Index from 36 to 5 among countries • Increasing household savings to 10% of total household income from current level 6% • Raising the non-profit sector's contribution to 5% from current ratio less than 1% of GDP • Increasing the volunteers to one million yearly from current number 11,000

Source: Adopted from (Council of Economic and Development Affairs, 2016)

2.2.3 ECONOMIC INDICATORS

From 2009, the Gross Domestic Product (GDP) of Saudi Arabia saw a period of notable growth as the CAGR (that is; the Compounded Annual Growth Rate) was 11.7% from 2009-14 (SAMA, 2015) which can be contrasted with the annual in the Middle East and North Africa (MENA) of 5.4% (World Bank Group, 2015). As the largest free market across the whole of the MENA region, Saudi Arabia has roughly 27.3% of the entirety of the combined GDP of the Arab world (Arab Monetary Fund, 2014).

The growth of the Kingdom is as a result of growing oil prices from US$ 61 to US$ 97 a barrel in 2014 (SAMA, 2015). This shift holds repercussions regarding the reliance of the Saudi Arabia economy upon oil exports, which grew from 85.2% to 87.5% from 2009-2014 (SAMA, 2015). An analysis of government finances from 2009 to 2014 indicates that this larger amount of revenue from oil resulted in CAGR to grow by 16.2% to SAR 913 Billion. This resulted in the nation being able to attain a surplus which galvanises governmental expenditure to over SAR 5 Trillion for the same period (Ministry of Finance, 2009, 2010, 2011, 2012, 2013, 2014). Also, Central Bank or Saudi Arabian Monetary Authority (SAMA) figures show that the GDP based on fixed prices grew from an amount of SAR 993 Billion in 2009 to SAR 1,274 billion in 2013, displaying an increase of 28.3% when compared with 2009 (SAMA, 2015).

2.2.3.1 Economic Diversification

In order to lessen its dependency upon oil, Saudi Arabia continues its endeavours to try and widen its economic foundations. Although the increase in oil prices has affected the margin of oil's contribution to GDP (SAMA, 2015), the contributions of the non-oil-related sectors has increased by a yearly rate of 4%, from 38% in 1980 to 58% in 2014 (SAMA, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007). However, growing the production in the economy of high-value-added services and increasing the contributions from the exporting of non-oil sector continue to be challenges that need addressing.

Table 2.2 GDP Oil and Non-Oil Sectors Contributions (SAR Million) (2009-2014)

Item	2009	2010	2011	2012	2013	2014
Oil Sectors	652,762	881,820	1,276,416	1,376,576	1,290,789	1,168,977
Non-Oil Sector	956,355	1,093,723	1,234,234	1,375,758	1,500,470	1,629,455
Oil Sectors %	41%	45%	51%	50%	46%	42%
Non-Oil Sector %	59%	55%	49%	50%	54%	58%
Total	**1,609,117**	**1,975,543**	**2,510,650**	**2,752,334**	**2,791,259**	**2,798,432**

Source: Adopted from (SAMA, 2015)

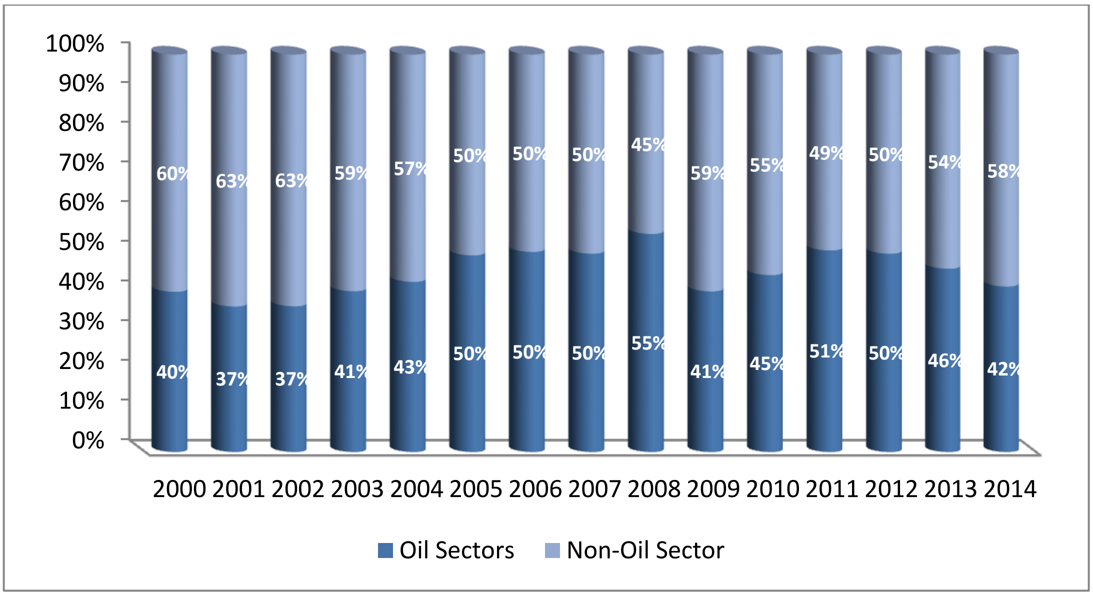

Figure 2.1 Oil and Non-Oil Sector Contributions to GDP (2000-2014)

Source: Adopted from (SAMA, 2015)

The Saudi government has been paying a growing attention to non-oil sectors such as trade, aviation, real estate, healthcare, education, utilities, mining, transportation, and telecommunication. The total loans given by financial sector to the private sector grew from SAR 734.2 Billion to SAR 1,156.2 Billion over the period 2009-2014, which is at a CAGR of 11.3% (SAMA, 2015).

2.2.3.2 GDP Growth

Saudi Arabia holds the top position with regards to GDP compared with the Gulf States as well as MENA countries. For the former, the country's GDP constitutes 45% of the whole of the GDP of the Gulf Cooperation Council (GCC), while the latter represent 22% of the GDP of all nations in this area in 2014 (World Bank Group, 2015).

The increase in the GDP (7.8%) has helped increase the GDP-per-capita, which grew by 50.7% from SAR 60,357 to SAR 90,946 (US$ 24,253) over the period 2009-2014 (SAMA, 2015). The country is listed among very high human development countries group and holds the 34th position (from a total of 187 nations) in the Human Development Index 2014 (United Nations Development programme, 2014).

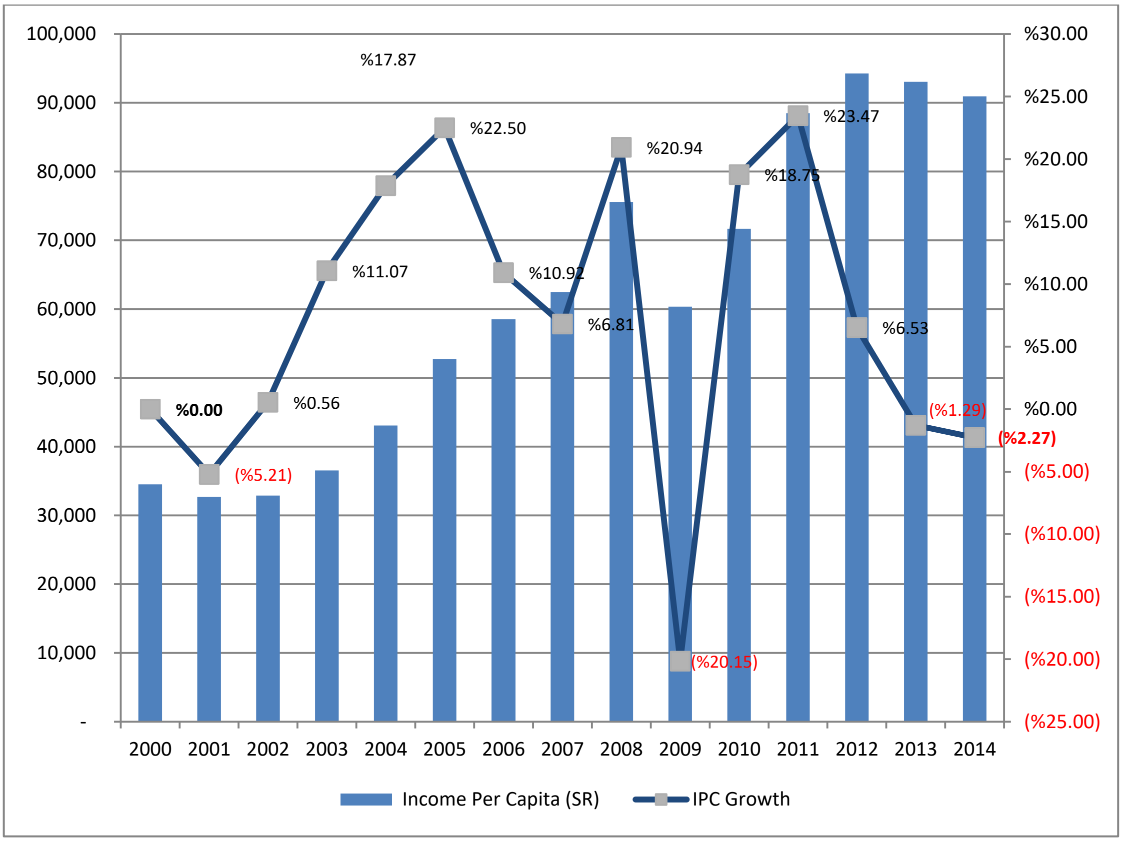

Figure 2.2 Saudi Arabia Income per Capita (2000-2014)

Source: Adopted from (SAMA, 2015)

2.2.3.3 Inflation and Currency

The average of the inflation figures has dropped throughout the past six years, and was at a level of 9.8% in 2008 and decreased to 2.7% in 2014. The yearly average for inflationary rate was fixed as determined by the consumer pricing index, and was 4,2% for the 2009-2014 period, an increase of 1.2% throughout the 2003-2008 period (World Banks Group, 2015; SAMA, 2015).

The SAMA monetary policy agenda is to retain cost stability as well as the peg of the U.S. dollar. The Pegged Exchange Rate (SAR 3.75/US$ 1) generated a credible anchorage, while also assisting macroeconomic stability. Also, this policy led to attracting more investments and lowering the risks of exchange rates (World Trade Organization, 2005). However, the fall in the value of the U.S. dollar against other currencies in the past few years has resulted in higher inflation rates. The Saudi government plans to continue the link of its currency and pegging of U.S. dollar and has no plans to change the exchange rate (SAMA, 2016)

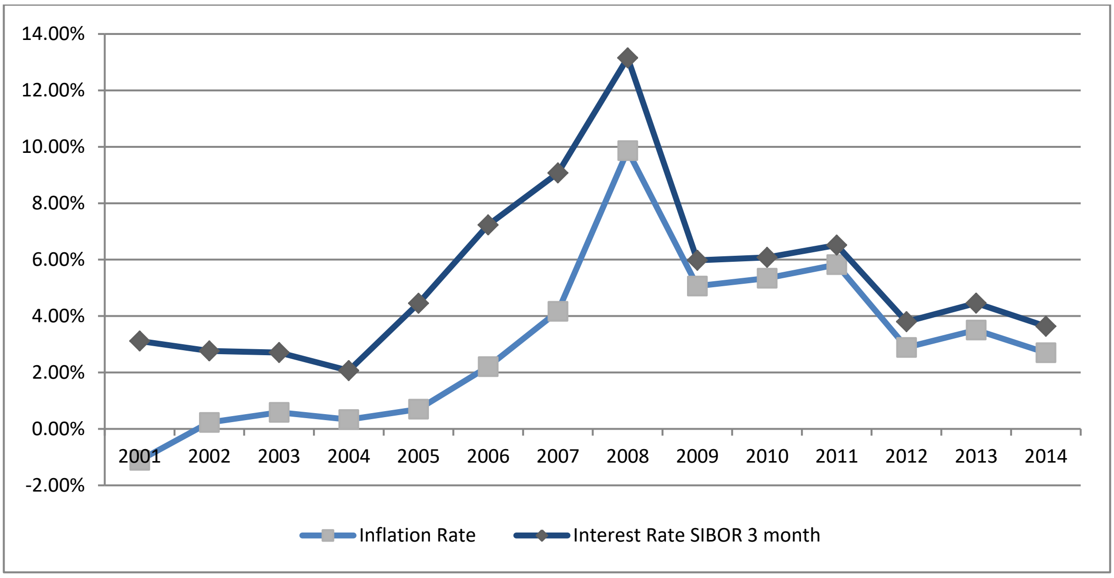

Figure 2.3 Saudi Arabia Inflation and Interset Rates (2001-2014)

Source: Adopted from (SAMA, 2015; World Bank Group, 2015)

2.2.4 SAUDI BUSINESS ENVIRONMENT

2.2.4.1 Competitive Policy

With the exception of particular sectors such as commercial banks and telecommunications industries, Saudi Arabia's competition policies are built on the free-market foundations. The competition law (2004) includes a series of provisions with regard to creating monopolies, mergers, and unfair commercial practices. This law is applicable to every form of business in Saudi regardless of whether they operate in agricultural, industrial, trading or service transactions. A council of competition was found to manage and control the adherence to this law (Competition Law 2004). Despite this law remaining the primary deterrent against anti-competition practices, the law does not allow anti-competition under a general Islamic decree that demands fair trading within every sale and purchase of goods. The competitive protections assist to sustain effective competition, fairness of pricing, quality of services and innovation delivery.

2.2.4.2 Foreign Investment Policy

The country began the process of pulling in foreign investment in 1956 with the introduction of the foreign investment Law in that year. With additional laws that followed in 1962 and again in 1979, government then revised and issued an all-inclusive law that provide far-reaching incentivising features such as the removal of customs duties for goods being imported, introducing nominal rental rates allocated for land and the setting-up of projects, providing financial assistance as loans as well as the removal of taxes and duties (World Trade Organization, 2005).

Taking into consideration the progress made at the international and local levels, investment laws were updated in April in 2000 with the introduction of further incentives to attract more investments. A single aspect of the new law was its move away from the use of incentives through tariffs and the utilisation of alternative Foreign Direct Investment (FDI) encouraging aspects that worked in conjunction with contemporary global liberalising of investment and international trade (The Foreign investment Act 2000).

In the past, the government required minimum threshold capital investment for certain industries: 25 Million SAR for agriculture, 5 Million SAR for manufacturing, and 2 Million SAR for service projects. With the introduction of the new foreign investment policy, the minimum threshold is no longer required. Thus, foreign investors do not need to utilise locally-based partners and are allowed to own property in the form of real estate for firms operations and housing needs. Also, no restrictions are placed on the transfer of funds outside Saudi (The Foreign investment Act 2000).

2.2.4.3 Tax Environment

General Authority of Zakat and Tax (GAZT) is responsible for collecting both Zakat and income tax. Zakat is a 2.5% flat rate that applies to the net worth of Saudi individuals, firms owned by Saudis, and national partners in joint-ventures. The fundamental levy for Zakat is not on revenues and/or profits, but significantly greater and incorporates capital, retained earnings, net profit and financial reserves. The bodies subject to Zakat are Saudi people who make business in the KSA, Saudi corporations of all types that conduct business in KSA and stakes of Saudis in joint firms (Zakat By-Law 1950). Social Welfare Organization under the Ministry of Labor and Social Development uses the Zakat revenues for the welfare of registered recipients (General Authority of Zakat & Tax, 2017).

The Saudi government has reformed its tax system significantly throughout since 2004. Reforms within this system include the changes to tax law as well as alterations to the administration and the mechanization of tax process. Form the year 2000, the Saudi government lowered the tax on foreign firms from 45% to 30% in order to secure additional foreign investments. In 2004, this rate of tax fell further to 20%, in the hope that it would secure yet further foreign investments for the country (Income Tax Law 2004).

It is worth noting that the income tax is only imposed on non-Saudis stakes in corporates' profits while Zakat is imposed on Saudis. Thus, there is no a combination between the two types for Saudi's stakeholders. Tax is associated to the bottom line (Net profit) and have different rates applied for different industries. Zakat is 2.5% linked to the capital and profits (Zakat By-Law 1950; Income Tax Law 2004)

2.2.5 GLOBAL INDICATORS

Saudi Arabia has been a member of the World Trade Organisation since 2005 (World Trade Organization, 2005) and is the only Arab country with the G20 membership since 2009 (Euromonitor International, 2009, 2014, 2015). These are indicators of Saudi Arabia's economic and financial importance. In addition, Saudi Arabia has been placed as one of the top countries in the MENA region in several indices including: Global Competitiveness Index (GCI), Global Innovation Index (GII), Global Entrepreneurship Index (GEI), Ease of Doing Business Index (EDBI), and Global Opportunity Index (GOI).

Global Competitiveness Index (GCI): Saudi Arabia is currently ranked 25th out of 144 nations in the Global Competitiveness Index (World Economic Forum, 2015). The country is also ranked 4th globally for 'Macroeconomic Environment', which stood as its best-performing category. This ranking attributes are as a result of the nation's institutions, proficient markets and advanced sophisticated businesses. Due to its high-macroeconomic soundness and its prolific use of Information and Communications Technologies (ICT), the nation of Saudi Arabia retained its place as the second most competitive nation in the MENA region, after Qatar (which is situated at 14th in the world rankings). In terms of the 'Quality of overall infrastructure, Saudi took the 30th position out 140 nations. The highest performing sectors were 'Mobile telephone subscriptions per one hundred of population' and 'electricity supply quality', where it was placed 4th and 23rd respectively (World Economic Forum, 2015). Infrastructure is on the political agenda with a budget of SAR 1.4 Trillion which is roughly US$ 373 Billion (Euromonitor International, 2014).

Global Innovation Index (GII): Out of 141 countries, Saudi Arabia took the 43rd position on the Global Innovation Index, retaining its place as the most innovative nation in the MENA region (Cornell University, INSEAD & WIPO*,* 2015). The Global Innovation Index framework considers innovations to be more generic and horizontal in nature including innovations in business models, social and technological. In sub-categories of ranking, Saudi Arabia was ranked 30th in the world in terms of creative outputs, 24th in ICT & organizational model creation, and 29th in ICT & business model creation. Amongst the MENA countries, however, it is the third highest ranked country in both business model creation and organizational model creation rankings (Cornell University et al., 2015).

Global Entrepreneurship Index (GEI): Saudi Arabia is currently ranked 36th in terms of nations' entrepreneurial ecosystems among 132 countries (Global Entrepreneurship Development Institute, 2015). This position outperformed a number of countries including Italy (48th), South Africa (52nd), China (60th) and India (98th). Like other indices, Saudi is placed as the 4th most entrepreneurial environment in the MENA region. Moreover, in the entrepreneurial attitudes sub-index reflecting the feeling of people towards entrepreneurship and entrepreneurs, Saudi Arabia is ranked 19th among the top 25 countries worldwide (Global Entrepreneurship Development Institute, 2015).

Ease of Doing Business Index (EDBI): Saudi Arabia was ranked 26th out of 189 nations in ease of doing Business, which was four places higher in 2013 (World Bank group, 2013). Within the MENA region, Saudi position remained high representing the second highest ranked country in Doing Business 2014, after the United Arab Emirates (UAE), which is at position 23rd globally. Furthermore, Saudi Arabia's performed the best in two categories in doing business namely 'Paying Taxes' and 'Registering Property', for which it was ranked 3rd and 14th respectively (Euromonitor International, 2014). This is as a result of government initiative since 2006 with wide corporate regulations reforms and investment aiming to place the nation within the top brackets of competitive nations (World Trade Organization, 2011).

Global Opportunity Index (GOI): Saudi Arabia was ranked 28th from 130 nations worldwide in terms of attracting foreign investments and investing in strategic projects, placing it second in the MENA region (Milken Institute, 2015). This has been achieved as a result of the strategies undertaken by the Saudi government to progress its investment context including the opening-up of certain sectors such as the oil and gas, investment banking, mining, telecommunicates, retail, and insurance (Milken Institute, 2015).

2.2.6 SAUDI ARABIA AS A CONTEXT FOR THIS STUDY

Despite the MENA region undergoing difficult and turbulent times since 2011, Saudi Arabia has remained secure, and foreign investors perceive it still as an attractive country for investment (U.S. Department of State, 2015). Saudi Arabia has been chosen as a context for our study for several reasons. First, Saudi Arabia remains one of the largest economies in the world (G20), and is the largest economy in the MENA region. Its economic strength stems from the Saudi Riyal (SAR), which is one of the most stable national currencies, and there has been no great fluctuation in its currency exchange rate for three decades. Second, the country is also among the most rapidly growing economies globally, with per-capita income rising from US$ 60,357 to US$ 90,946 for 2009-2014 periods. Third, the country has significant cost advantages as a result of energy and industrial lands costs that are subsidised by the government. Fourth, Saudi Arabia has been placed as one of the top countries in the MENA region: second in the Global Competitiveness Index (World Economic Forum, 2015), first in the Global Innovation Index (Cornell University et al., 2015), fourth in the Global Entrepreneurship Index (Global Entrepreneurship Development Institute, 2015), second in the Ease of Doing Business Index (World Bank group, 2013), and second in the Global Opportunity Index (Milken Institute, 2015). These are indicators of Saudi Arabia’s economic and financial importance in the region, making it an ideal context to study.

2.3 SAUDI CAPITAL MARKET & INVESTMENT BANKS

2.3.1 CAPITAL MARKET AUTHORITY (CMA)

Since 2003, the CMA is a regulatory body that is responsible for safeguarding the securities market, ensuring its efficiency, fairness and vibrancy through its rule-making and enforcement abilities. The CMA was assigned the authority to disseminate and enforce rules for the disclosure recognised as necessary in relation to the provision of securities, the ongoing disclosure responsibilities of publicly operating organisations, proxy solicitation regulation and defining and monitoring insider trading (Capital Market Law 2003). Until mid-2004, the industry was monopolised by Saudi commercial banking institutions, which were operated within the central bank umbrella (SAMA), comprising 10 commercial banks (Tadawul, 2003). These commercial bank subsidiaries were responsible for assets management, brokerage, investment banking, custody services and other financial services. However, the power to license non-commercial bank financial intermediaries involves in investment bank operations was moved to CMA (Capital Market Law 2003).

2.3.1.1 Licenses for Investment Banks Operations

CMA is authorised to issue licences for "Authorised Persons" (or APs) to practice securities business and who were able to satisfy licence criteria (Authorised Persons Regulations 2005) and completed the following stages:

- The pre-submission stage, involving license application
- The receipt of application and preliminary review
- Intensive application review and subsequent assessment
- The preparation of various suggestions, and accordingly making the decision

Table 2.3 shows the scope of the core available securities business activities include their names as known globally.

Table 2.3 Licenses and Securities Business Activities in Saudi Arabia

Licenses	Activities of License	Worldwide known as
Managing	Securities management of others (Managing Investment Funds, Managing Clients' Portfolios)	Assets management
Dealing	Dealing as principal or agent, dealing includes the sale, purchase, Initial Public Offering (IPO) Management, or underwriting in securities business.	Brokerage and underwriting
Arranging and Advisory	Financial advisory in corporate finance field (Initial public offering (IPO) arrangements, private offering, M&A, and finance arrangement) and providing advice in dealing securities	Investment banking
Custody Service	Custody of others assets including securities and the associated administrative business.	Custody

Source: Adopted from (Securities Business Regulations 2005)

Activities that could be authorised by CMA include dealing, managing, arranging and advising and custody (Authorised Persons Regulations 2005). In 2014, 88 APs were granted the total of 351 licenses. Advising and arranging licenses account for 82 and 80 licenses respectively, which mean that most of the APs have these licenses followed by the managing and custody activities which were 66 and 65 licenses respectively. Lastly, dealing activities come at the bottom of list with only 58 licenses (CMA, 2015a).

Table 2.4 The Issued Licenses for Authorised Persons' Activities (2005-2014)

Licences		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Managing	**Assets management**	4	19	46	69	78	71	69	67	70	66
Dealing	**Brokerage**	3	22	51	67	72	65	61	58	60	58
Arranging	**Investment banking**	3	26	64	92	104	86	79	78	82	80
Advising		4	28	68	97	109	88	78	78	83	82
Custody	**Custody**	4	17	49	72	81	75	70	68	70	65
Total		**18**	**112**	**278**	**397**	**444**	**385**	**357**	**349**	**365**	**351**

Source: Adopted from (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a)

The number of APs declined in 2009-2014 period by 19%, which led to a decline in permits for all activities. Advising activity is the most affected with 25% decline followed by arranging and custody services with a decline of 23% and 20% respectively. In accordance with the authorised persons regulations (2005) issued by CMA, there was a threshold capital requirement for each activity in order to obtain a license. Table 2.5 shows that the lower the capital requirement, the higher the decline. This could be due to having more competition in activities that require lower capital, and therefore APs would be less interested in performing such activity.

Table 2.5 Capital Requirements and the Change in Issued Licenses (2009-2014)

Licences		Capital Requirement (SAR)	The change of issued licenses over 2009-2014
Managing	**Assets management**	50,000,000	Decline 15%
Dealing	**Brokerage**	50,000,000	Decline 19%
Arranging	**Investment banking**	2,000,000	Decline 23%
Advising		400,000	Decline 25%
Custody	**Custody service**	50,000,000	Decline 20%

Source: Adopted from (Authorised Persons Regulations 2005; CMA, 2010, 2011, 2012, 2013, 2014a, 2015a)

From Figure (2.4), the number of APs reached 110 in 2008, but was recorded to plummet to its lower level 3 years later. In 2014, 88 APs have been authorised to operate in the Saudi market with diverse licences.

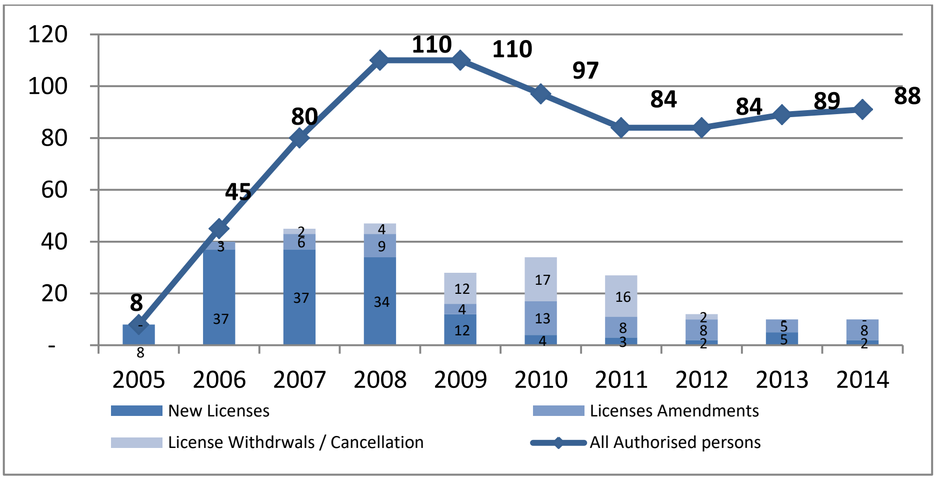

Figure 2.4 Authorized Persons in Saudi Capital Market (2005-2014)

Source: Adopted from (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a)

2.3.1.2 CMA Strategic Plan 2015-2019

To ensure continued support for the national economy, CMA developed its strategic plan for 2015–2019 (CMA, 2014b). By implementing this plan, the CMA aims to fulfil its objective to position the Saudi capital market as a forerunning market, achieving investors' trust and providing efficiency, fairness and transparency across transactions pertaining securities. The strategic plan constituted four strategic themes (ST): (1) foster capital market development, (2) promote investor protection, (3) improve the regulatory environment, and (4) enhance CMA's organizational excellence. Table 2.6 summarises these themes and related strategic objectives (SO):

Table 2.6 CMA Strategic Themes and Objectives

First ST: Foster Capital Market Development	Second ST: Promote Investor Protection
• SO (1.1): Expand Institutional Investor Base • SO (1.2): Support the Development of Authorized Persons and Develop Human Resources in Capital Market Sector • SO (1.3): Support Growth of Asset Management Industry • SO (1.4): Promote Issuance of Sukuk (bonds and financial certificates) and Debt Instruments • SO (1.5): Support Saudization of Jobs at Authorized Persons	• SO (2.1): Improve Disclosure Requirements and Content to Boost Capital Market Transparency • SO (2.2): Promote Investment Literacy and Awareness of Market Participants • SO (2.3): Increase Compliance with the CML and Implementing Regulations through Effective Supervision and Awareness, and Adoption of Deterrent Policies
Third ST: Improve the Regulatory Environment	**Fourth ST: Enhance CMA's Organizational Excellence**
• SO (3.1): Adopt a Disclosure-Based Regulatory Approach and Continuously Enhance Implementing Regulations • SO (3.2): Enhance Coordination and Cooperation with Concerned Government Entities on Capital Market Matters	• SO (4.1): Improve CMA's Internal Efficiency and Effectiveness • SO (4.2): Enhance Internal Governance and Risk Management • SO (4.3): Facilitate Electronic Transition of CMA's Operations and Services

Source: Adopted from (CMA, 2014b)

2.3.2 SAUDI STOCK EXCHANGE (TADAWUL)

With a humble beginning of the Saudi joint stock organisations in the 1930s, the Saudi Stock Exchange company (Tadawul) was established as a legal entity, benefitting from independent financial status (Tadawul, 2003, 2015c; Capital Market Law 2003). Tadawul's objectives are centred on delivering, preparing and managing securities trading mechanisms, and carrying out reconciliations, the securities clearance process, deposits, and accordingly registering securities ownership as well as publishing securities-relevant data (Capital Market Law 2003).

The number of firm publicly listed on the Saudi Stock Market was 169 joint stock organisations in 2014, compared to 77 firms in 2005 (Tadawul, 2006, 2015d). As shown in Figure 2.5, the listed public companies' market value reached 2,438 Billion SAR (US$ 650.1 Billion) in 2005, and was recorded to the value of SAR 1,813 Billion (US$ 483.5 Billion) in 2014. Regardless of the notable decline that was witnessed in 2007–2008 owing to the world's financial crisis, the CAGR during the 2008–2014 periods is 11.8% (Tadawul, 2006, 2007, 2008a, 2009a, 2010a, 2011a, 2012a, 2013a, 2014a, 2015d).

In 2013, the total number of investors was 4,335,739 of which 4,331,995 were individual investors (Tadawul, 2014a). This means that 99% of investors are individuals rather than institutions.

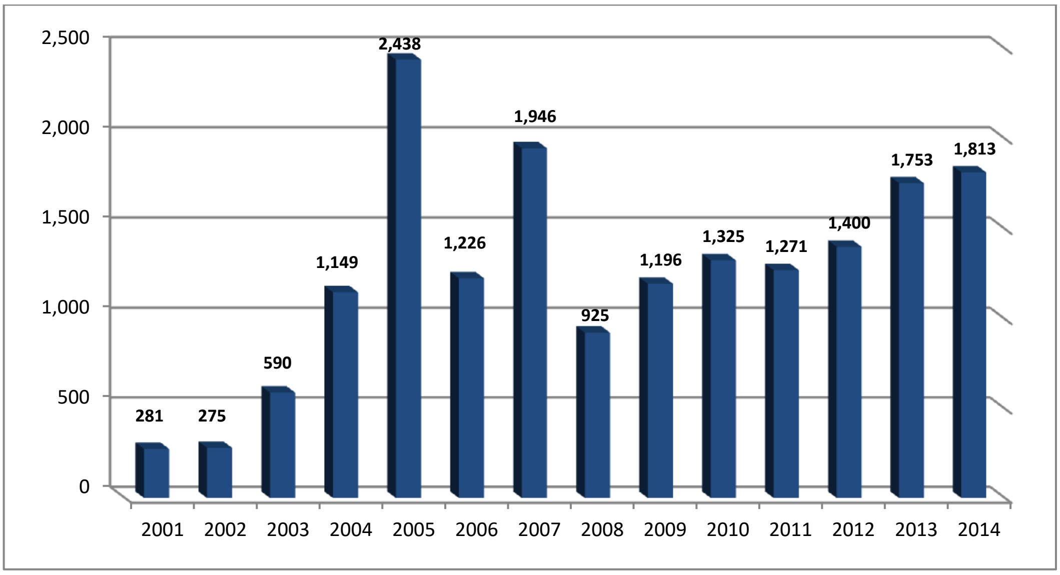

Figure 2.5 Saudi Stocks Market Capitalisation (SAR Million) (2001-2014)

Source: Adopted from (Tadawul, 2003, 2004, 2005, 2006, 2007, 2008a, 2009a, 2010a, 2011a, 2012a, 2013a, 2014a, 2015d)

Table 2.7 shows the securities operations development in the Saudi market. Importantly, increasing growth has been seen across the capital market in regard to the offering transactions of securities, following the establishment of CMA in 2003. The largest share has achieved by the private offering transactions (118 in 2014 compared with 5 IPO transactions).

Table 2.7 Securities Operations Numbers in Saudi Capital Market (2005-2014)

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
IPO	6	10	27	13	13	7	6	8	5	5
Private Placements (Equity and Debt)	11	23	73	19	64	93	74	90	115	118
Rights Issue / Dividends	23	25	22	22	16	5	15	25	19	34
M&A through shares issue	-	3	1	1	1	-	1	1	1	1
Debt Securities (Public Offering)	-	1	2	1	2	1	2	1	2	-
Capital Reduction	-	-	1	-	-	1	1	1	-	-
Total	**40**	**62**	**126**	**56**	**96**	**107**	**99**	**126**	**142**	**158**

Source: Adopted from (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a)

Additionally, the growth of Saudi capital market is shown by the value of security operations which reached the highs of SAR 70 Billion (US$ 18.7 billion) in 2008 and was recorded just under 70 billion SAR in 2014 with an average value of over SAR 40 billion for 2005-2014 period.

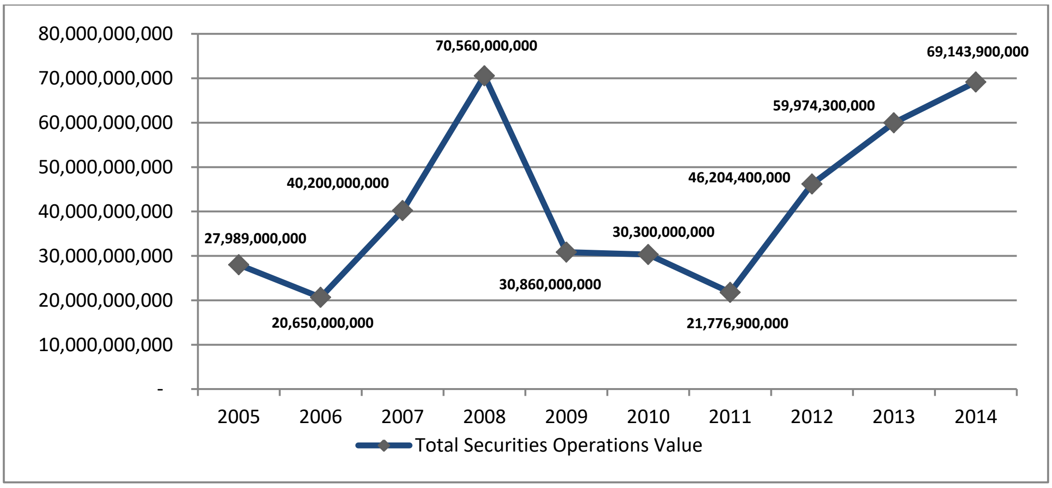

Figure 2.6 Securities Operations Value in Saudi Capital Market (SAR) (2004-2014)

Source: Adopted from (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a)

Until 2015, Saudi Arabia was perceived as one of the most closed regional market. In its attempts to facilitate foreign investments, the Saudi government authorised a number of qualified foreign Investors (QFIs) of financial institutions to invest directly in the Saudi stocks market. In order to qualify, financial institutions need to have US$ 3.75 billion value of its assets and 5 years investment experience according to the rules for qualified Foreign Financial Institutions Investment in listed Securities amended in 2016 (CMA, 2017a).

2.3.3 SAUDI INVESTMENT BANKS

2.3.3.1 An Overview of the Industry

There are no indicative statistics to show the real size of financial services such as assets management, arranging, and brokerage. Also, firms' annual reports and financial statements are not available publicly either because of privacy issues and/or the laws allow it. Using CMA data of aggregate financial statements for all authorized persons including balance sheet and income statements, this section will provide an overview of the industry by exploring where revenues come from and what are the market shares for each service.

In terms of assets, Table 2.8 shows that the total assets of APs amounted to SAR 27.2 Billion (US$ 7.4 Billion) in 2014. Over the period of three years since 2012, the total assets of the industry grew by 16.7%. The bank affiliate APs possessed approximately 48.2% of the total assets compared with 51.8% held by 76 APs that belong to local, regional, and international owners.

Table 2.8 Authorized Persons Assets (SAR Million) (2012-2014)

Item	Bank Affiliate APs			Local APs			Regional APs			International APs			Arranging / Advising APs			Total		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014			
Cash and Equivalent	4,188	4,313	5,137	1,051	1,404	1,535	2,222	1,525	1,784	1,439	1,466	1,421	125	119	280	9,025	8,827	10,157
Accounts receivables	353	363	406	814	641	637	146	122	291	51	109	82	48	70	64	1,412	1,305	1,480
Margin Lending Creditors	2,102	3,314	3,763	221	248	227	13	17	18	-	-	-	-	-	-	2,336	3,579	4,008
Investments	2,905	2,754	3,340	5,297	4,853	5,070	1,064	1,069	1,087	2	44	-	23	58	48	9,291	8,778	9,545
Fixed Assets	279	219	226	271	810	417	45	246	266	43	29	22	5	23	7	643	1,327	938
Other Assets	303	309	327	268	786	694	60	104	74	30	47	38	6	6	11	667	1,252	1,144
Total Assets	**10,130**	**11,272**	**13,199**	**7,922**	**8,742**	**8,580**	**3,550**	**3,083**	**3,520**	**1,565**	**1,695**	**1,563**	**207**	**276**	**410**	**23,374**	**25,068**	**27,272**

Source: Adopted from (CMA, 2013, 2014a, 2015a)

In terms of shareholder equity, the total investors' owner equities in licensed firms were 21.1 Billion SAR (US$ 5.6 Billion) in 2014 with an increase of 2.5 Billion SAR in 2012. The share of the bank affiliate APs from this capitalization was 45% followed by local AP’s with 36% (CMA, 2013, 2014a, 2015a).

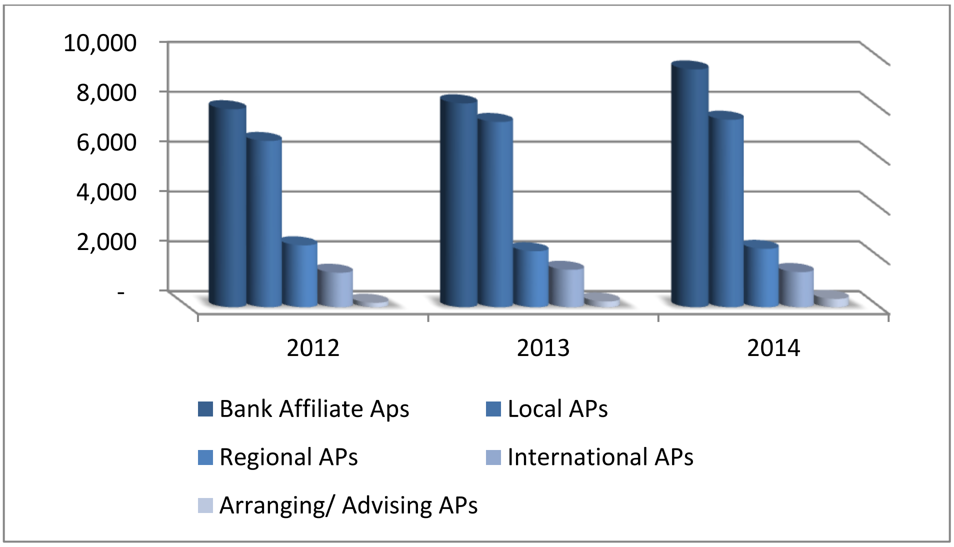

Figure 2.7 Authorized Persons Shareholder Equities (SAR Million) (2012-2014)

Source: Adopted from (CMA, 2013, 2014a, 2015a)

In terms of revenues, the total amount (other than commercial banks and insurance companies) reached SAR 7.2 Billion (US$ 1.9 Billion) in 2014, which has increased by 18.9% from 2012 figures. An overall market share of the bank affiliate APs is about 61.4% of the sector's total revenues compared to 38.6% as revenue obtained by other licensed firms (CMA, 2013, 2014a, 2015a).

In terms of costs, staff and salaries costs constitute the significant proportion with about half of the total expenses. The marketing expenses did not exceed the 2% for the whole industry. The remaining expanses are utilities, depreciations, rentals, consultancy and professionalism fees, maintenance, insurance and others accounting for around 48% in 2014 (CMA, 2015a).

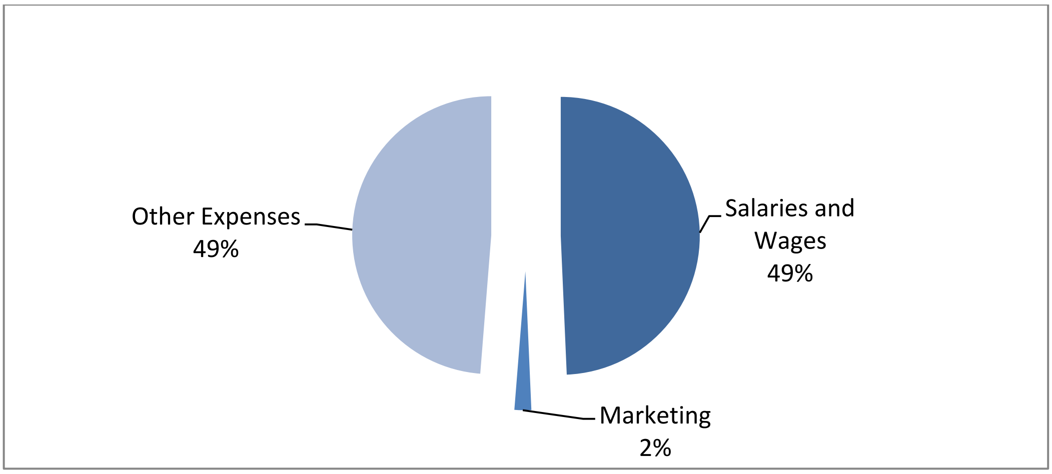

Figure 2.8 Cost Structure for Authorized Persons (2014)

Source: Adopted from (CMA, 2015a)

2.3.3.2 Investment Banks Business Lines

There are five key sources for securities business sector revenues in Saudi Arabia namely brokerage, managing, arranging, advising and custody services (CMA, 2013, 2014a, 2015a). They represented 76.8% of the industry revenues in 2014. The other sources, mainly the investment revenues of firms' funds, represented 24.2% of industry revenue. In 2012, brokerage services share was 36% representing the highest revenue from the sector, followed by managing and arranging with 22% and 18% respectively. However, in 2014 the Brokerage services revenues dropped to 33% and managing services grew substantially to 32%, preceded by investment banking and custody services with 10% and 0.9% respectively. It is worth noting that investment banking shows a major decrease not just as a percentage but also as a value decreasing from SAR 1.1 Billion in 2012 to SAR 748 Million in 2014 (CMA, 2013, 2014a, 2015a).

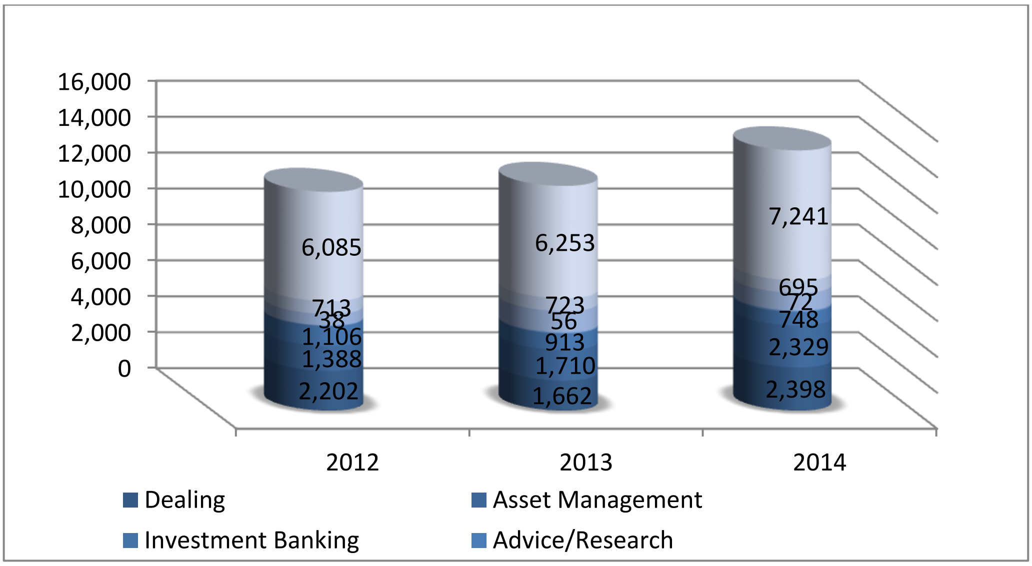

Figure 2.9 The Industry Revenues (SAR Million) (2012-2014)

Source: Adopted from (CMA, 2013, 2014a, 2015a)

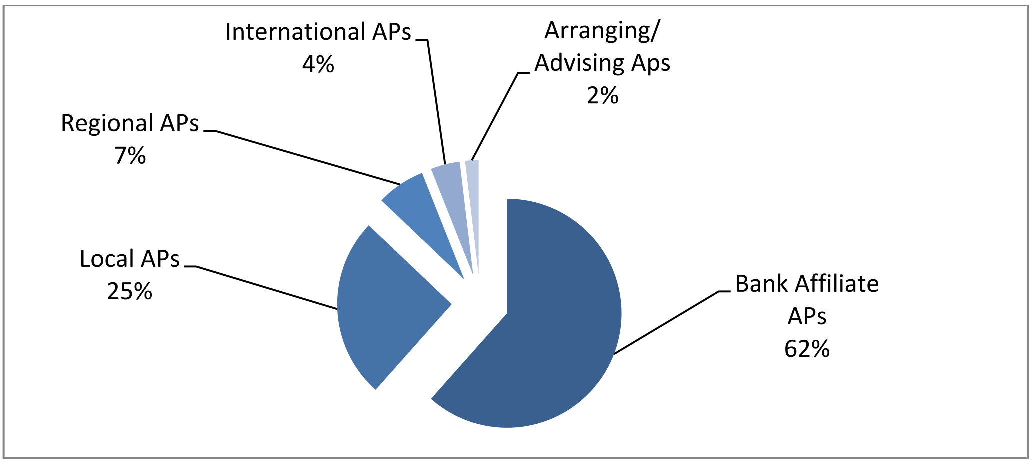

Figure 2.10 The Total Market Share of Authorized Persons (2014)

Source: Adopted from (CMA, 2015a)

2.3.3.2.1 Asset Management

According to securities business regulations (2005), there are two types of activities that relate to managing service which are managing investment fund and managing client's own portfolios (Discretionary Portfolio Management - DPM). Managing investment funds either mutual or private represent the core service in this category.

The highest growth of mutual funds was achieved through equities funds and money market funds (Figure 2.11). The market value of equities funds dropped in 2008 as a result of the global financial crisis (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a). Since instating the CMA, the number of mutual funds has grown markedly to 263 funds with value of SAR 110 Billion (US$ 29.3 Billion) in 2014 (CMA, 2015a). The equity funds has a major portion with 150 funds (57%) followed by money market funds with 46 funds (17%). The value of money market funds is SAR 66 Billion which is the highest value compared with other types of funds (60%) followed by equity funds that reached SAR 35 Billion in 2014. Historically, equities funds were dominating the fund's assets value but after the decline in exchange market; the money market funds took the lead from 2008 onwards (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a; SAMA, 2007)

The total values of ownership of foreign investors either through swap agreements, strategic investment, international qualified investors, residents, or discretionary portfolio management DPM have also witnessed considerable increase during the recent years. As of 30 November 2015, foreign investors owned SAR 75.9 Billion representing 4.5% of Saudi stock exchange market capitalization (Tadawul, 2015b).

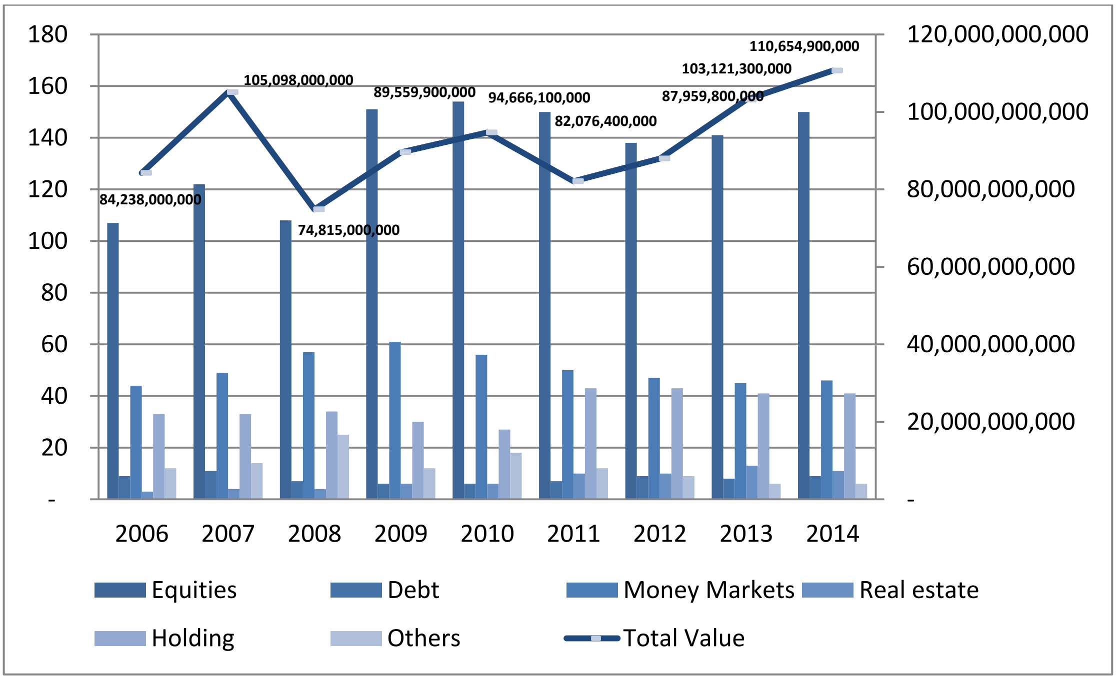

Figure 2.11 Mutual Funds by Type and Total Value (SAR) (2006-2014)

Source: Adopted from (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a; SAMA, 2007)

By analysing a sample of mutual funds terms and conditions for different kinds of underlying assets, there are six different fees that accrue to fund managers representing their core revenue namely subscription fee, management fee, redemption fee, administrative fee, performance fee, and custody fee (Table 2.9). These fees vary depending on the underlying assets, fund's investment strategy, fund's performance, and the asset value under management among other factors. Firms do not have to apply all kinds of fees. The fees are chosen according to fund manager revenue (fees) model.

Table 2.9 Investment Funds Fees Charged by Asset Management

Fees	Description (most practices in the industry)
Subscription fee	Based on the total subscribed amount
Management fee	Based on the fund net assets value
Redemption fee	Based on the total subscribed amount
Administrative fee	Based on the fund net assets value or fixed amount
Custody fee	Based on the fund net assets value or fixed amount
Performance fee	Based on the fund return

Source: Adopted from (CMA, 2017c)

Asset management is a key business line for investment banks with a contribution of 32% of total revenue for all APs with over SAR 2 Billion revenues in 2014. The total market share of asset management for banks affiliate APs and non-bank affiliate APs in 2014 was 70% and 29% respectively (CMA, 2013, 2014a, 2015a).

2.3.3.2.2 Brokerage

By 2004, there were 10 competitors dominating the brokerages services owned by commercial banks. However, the number of active brokers increased to 40 in 2010. By 2014, only 30 active brokers remained in the market with 12 from commercial bank affiliate AP's (holding assets of SAR 2.13 Trillion and deposits of SAR 1.57 Trillion).

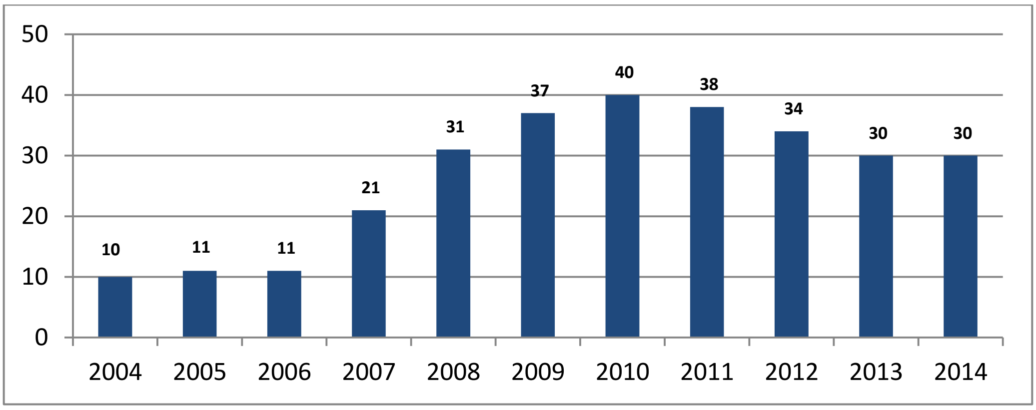

Figure 2.12 Active Brokerage Agents (2004-2014)

Source: Adopted from (Tadawul, 2005, 2006, 2007, 2008b, 2009b, 2010b, 2011b, 2012b, 2013b, 2014b, 2015a)

Although the Saudi market progress is notable, investment banks fail to recognise that there are no limits to such growth in various areas, such as asset management, mergers and acquisitions, project finance and Islamic bond issuance (Hancock & Dore, 2013)

According to CMA Securities Business Regulations (2005), there are three types of activities in the dealing license namely dealing as principle, agent and underwriter. Dealing as principle and agent includes selling or buying, but the difference is that the former deals with APs accounts while the latter deals with clients and investors - brokerage services. Thus, the core service in this regards is brokerage services provided to customers.

Dealing services represent about 33% of total revenue for all APs in 2014. Table 2.10 shows that by 2006, there were 11 brokers providing services owned by 11 commercial banks. After the liberalisation of the market, around 40 active APs were operating in the market providing brokerage service Source (Tadawul, 2005, 2006, 2007, 2008b, 2009b, 2010b, 2011b, 2012b, 2013b, 2014b, 2015a; CMA, 2013, 2014a, 2015).

Table 2.10 Brokerage Firms, Total Trading Value, Stocks Market Capitalization and Total Dealing Revenues (2004-2014)

Year	Number of Brokerage Firms	Total Trading Value (SAR Billion)	Stocks Market Capitalization (SAR Billion)	Total Dealing Revenues for all APs (SAR Million)
2004	10	1,773	1,148	Not disclosed
2005	11	4,138	2,438	Not disclosed
2006	11	5,261	1,225	Not disclosed
2007	21	2,557	1,946	Not disclosed
2008	31	1,962	924	Not disclosed
2009	37	1,264	1,195	Not disclosed
2010	40	759	1,325	Not disclosed
2011	38	1,098	1,270	Not disclosed
2012	34	1,929	1,400	2,202
2013	30	1,369	1,752	1,662
2014	30	2,146	1,812	2,398

Source: Adopted from (Tadawul, 2005, 2006, 2007, 2008b, 2009b, 2010b, 2011b, 2012b, 2013b, 2014b, 2015a; CMA, 2013, 2014a, 2015)

The CMA and Tadawul impose a commission structure for brokerage houses. This commission is determined and cannot be exceed by brokers. The total commission charged in selling or buying equals 0.١٥٥% of the transaction value (32.26% of that goes to Tadwul and CMA distributed 82% for CMA and 18% for Tadawul while the remaining 67.64% is taken by brokerage houses) (CMA, 2017b). Thus, the maximum commission is fixed but brokerages have the ability to reduce their portions from commission to the extent that meets their strategy.

Taking into consideration the trading values for the stock market (shown in Table 2.10), the market share of brokerage houses was over 90.1% for commercials banks and 9.9% for non-commercial banks. Also, the top nine brokerage houses in terms of performance in Internet trading platform in 2013 are APs banks affiliate (Tadawul, 2015a). Those nine APs acquired 87.3% of total internet trading values (Tadawul, 2014a). Even though this may indicate that after 9 years of the liberalization the affiliated APs still have an overall control of brokerage services, non-commercial banks share of brokerage is slowly increasing year on year (Tadawul, 2008b, 2009b, 2010b, 2011b, 2012b, 2013b, 2014b, 2015a).

Table 2.11 Market Share for Brokerage Services (2007-2014)

The competitor groups	2007	2008	2009	2010	2011	2012	2013	2014
Commercial bank Affiliation	99%	97%	96%	94%	92%	92%	92%	90.1%
Non-Commercial bank Affiliation	1%	3%	4%	6%	8%	8%	8%	9.9%

Source: Adopted from (Tadawul, 2008b, 2009b, 2010b, 2011b, 2012b, 2013b, 2014b, 2015a)

Customer's base for brokerage services is shown by the number of investment portfolios and number of investors who own these portfolios (Table 2.12). The portfolios number has grown to reach 7,750,803 accounts belonging to 4,221,355 investors in 2013 (Tadawul, 2014a). This is a strong indicator that 21% of Saudis had trading accounts regardless if they are active or not. At the same time, the growth in Saudi stock market index TASI (Tadawul All Shares Index) and the IPO's number attracted people to invest in the market.

Table 2.12 Customers Base for Brokerage Services (2004-2014)

Type	2004	2005	2006	2007	2010	2011	2012	2013	2014
Portfolio's No.	N/A	N/A	N/A	N/A	N/A	7,334,026	7,478,219	7,750,803	-
Investors No.	1,383,636	2,573,597	3,577,618	3,669,538	4,045,793	4,102,361	4,221,355	4,335,739	4,462,067
TASI Index	8,206	16,713	7,933	11,039	6,621	6,418	6,801	8,536	8,333
IPO's No.	-	6	10	27	7	6	8	5	5

Source: Adopted from (Tadawul, 2006, 2007, 2008a, 2009a, 2010a, 2011a, 2012a, 2013a, 2014a, 2015d)

2.3.3.2.3 Investment Banking

This line of business relates to providing consultancy services in corporate finance, or acting in any way to execute deals on securities (Securities Business Regulations 2005). Thus, IPOs, equity and debt placements, merging and acquisitions (M&A), and structuring and financing businesses are within the scope of this business line.

Arranging services accounted for 10% of the total revenue for all APs in 2014. Although there was an increase in the size of IPOs, right issues transactions, and overall total securities transactions value SAR 69 Billion in 2014 compared with SAR 59 Billion in 2013, there was a decrease of 22% in the investment banking revenues (CMA, 2014a, 2015a). This is could be attributed to the high level of competition and the price war raged.

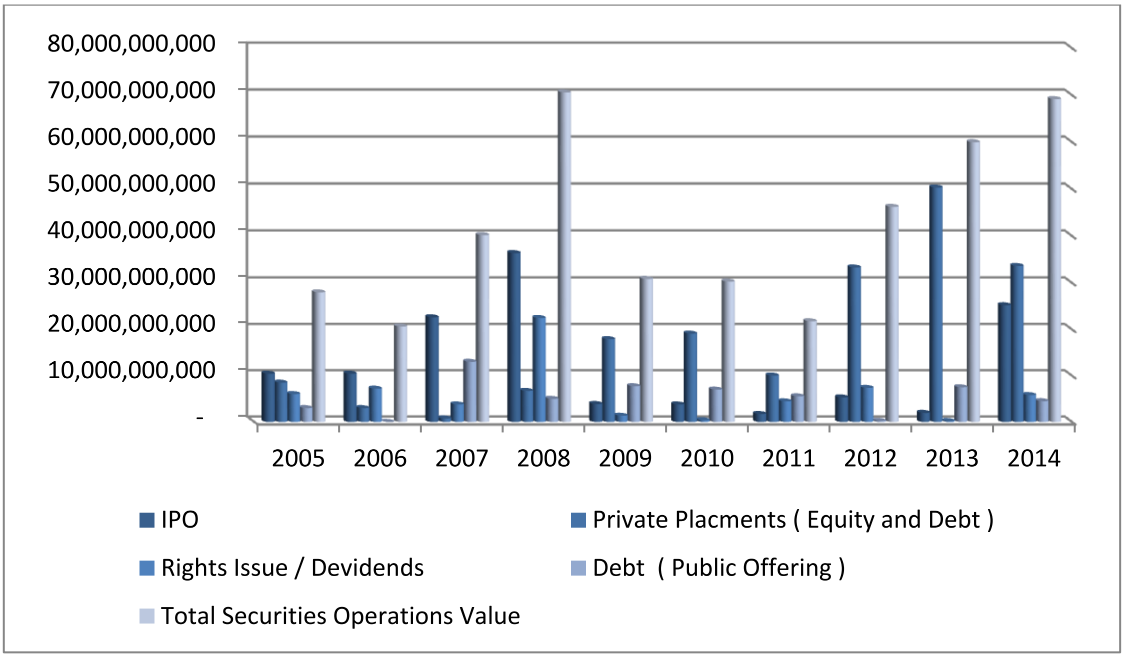

Figure 2.13 Securities Operations Types and Value (SAR) (2005-2014)

Source: Adopted from (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a)

An analysis of IPO transactions prospectus indicates that the placement fees and costs are disclosed in accordance with the placement value. However, only total costs for all participants were available. These costs include the financial advisor (arranger) fees, underwriter's fees, management fees, legal advisory fees, and marketing fees (CMA, 2017c). Table 2.13 shows the fees as a percentage of placement value for each year since 2005.

Table 2.13 Total IPO Values and Fees (SAR) (2005-2014)

Year	Total IPOs' Values (Million)	Total IPOs' Fees	%
2005	6,279	68,197,386	1.09%
2006	10,365	251,390,958	2.43%
2007	18,035	527,020,353	2.92%
2008*	14,226	369,103,645	2.59%
2009	3,882	129,321,476	3.33%
2010	3,832	155,935,478	4.07%
2011	1,727	66,980,000	3.88%
2012	5,326	172,654,000	3.24%
2013	1,962	87,091,311	4.44%
2014*	2,729	91,000,000	3.33%

* NCB bank , Inma Bank and MAa'den IPO's excluded from the values and costs due to the fact that Government took the role of underwrite in which not cost in this services.

Source: Adopted from (CMA, 2017c)

IPOs and private placement transactions are the main sources of income for this line of business. The total of IPO transaction for the period 2005-2014 is valued at SAR 121.8 Billion with an average of SAR 12.1 Billion placed annually in the market. Also, over the same period, the value of right issues was SAR 9.1 Billion for the listed firms placed by the shareholders (CMA, 2017c).

2.3.3.2.4 Custody Services

The Investment funds regulation (2016) specifies that all fund managers should state who performs the following activities or services in terms and conditions:

1) Investment management of the portfolio of the fund;

2) Custody of portfolio assets of the fund;

3) Dealing in securities or other assets of the fund; and

4) Administration of the fund.

As a result, all mutual funds managers could perform the custody services by themselves, third parties and other APs. These services include safeguarding assets including securities, arranging efforts, and necessary administrative actions. In addition, custodians provide reports, handling actual payment of distributions and transaction settlements. This service helps to avoid conflict of interest with asset managers, reduce some operational risks in asset management and add a general level of protection to investors. While trustee works to make sure that the investing objectives and plan are adhered by asset managers, custodian banks are not responsible for verifying that investment assets are managed according to specific objectives or not.Although custody services are only provided by APs, it is evident that the revenue in this service has shown a considerable growth (Table 2.14). Custody services accounted for only 1% of total revenues for all AP's in 2014, yet the growth rate during 2013–2014 was 28%. This could be attributed to the increase of APs' mutual and private funds quantity and value. In 2014, the total assets of mutual and private funds (Asset under Management - AUM) were SAR 162 Billion compared with SAR 139 Billion in 2013 representing a growth of 16% (CMA, 2013, 2014a, 2015a).

Table 2.14 Custody Services Revenue (SAR) (2012-2014)

Item	2012	2013	2014	Growth
Total value of mutual and private funds	116,7 billion	139,7 billion	162,0 billion	16%
Custody Revenue	38 million	56 million	72 million	28%
Number of mutual and private funds	391	458	578	26%

Source: Adopted from (CMA, 2013, 2014a, 2015a)

2.4 STUDYING INVESTMENT BANKS BUSINESS MODEL INNOVATION

Before the formation of the Saudi Capital Market Authority (CMA), the capital market had been monopolised by commercial banking entities, which were being overseen by Saudi Arabian Monetary Authority (SAMA). The industry achieved a number of tangible developments in regard to the legislations, regulations, liberalizing the market and general setup of the vocational criteria responsible for delivering such services during the time following the establishment of the CMA in 2004. This gives the importance of the investigating business models of investment banks in Saudi Arabia.

Investment banks industry in Saudi Arabia is considered an enormous industry in terms of the assets under management and trading values. In 2014, the total assets of mutual and private funds (total of assets under management AUM) stood at SAR 162 billion compared with SAR 139 billion in 2013 which grew by 15.9% (CMA, 2015a). In addition, the total value of stocks traded in the stocks exchange amounted to SAR 2.1 trillion (Tadawul, 2015d). Table (2.15) summarises the key indicators for this industry.

Table 2.15 Investment Banks in Saudi Arabia Key Indicators (2014)

Item	2014 (SAR)	2014 (US$)
Annual trading in stock exchange (Brokerage size)	2.1 trillion	572.4 billion
Total value of mutual and private funds	162 billion	43.2 billion
Total Market shares for the all licences (Revenue)	5,564 million	1,483.7 million
Total invested amount (Shareholder equity) all APs	21,148 million	5,639 million

Source: Adopted from (CMA, 2015a; Tadawul, 2015d)

Through examining the various actors in the sector, it can be seen that the peak player numbers reached 110 APs during 2008, after which, the sector experienced an outgoing wave, with the numbers of licensed AP's plummeting and accordingly reaching their lowest level just three years later. Moreover, as of 2004, when the CMA was established, 144 APs were afforded license to work in the industry; however, 53 could not compete in the sector and failed. As of 2014, there are 88 authorized persons with diverse licences compete in the industry (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a). It is needed to understand how the existing AP's could change their business models to keep them survival. This reflects the fact that a high competitive environment plays a vital role among competitors to innovative business models.

As of 2014, the total investors in all mutual funds managed by authorized persons researched 245.7 thousand investors (CMA, 2015a). The number of investors in such funds peaked in 2006 at 499.3 thousand investors (CMA, 2008). Customer's base for brokerage has grown to reach 7,750,803 accounts belonging to 4,221,355 investors in 2013 (Tadawul, 2014a). This reflects the size of the customers' base and transactions in the Industry.

The listed firms in the Saudi stock market increased by 123% over the last 9 years from 77 to 169 firms in 2014 with a market value SAR 1,812 billion (Tadawul, 2015d). In addition, the total number of IPO's transactions is 92 equal to SAR 121.8 billion placed in the market on the average of SAR 12.1 billion yearly. Furthermore, there was SAR 59.1 billion as right issues for the listed firms placed to the shareholders in 2014 (CMA, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014a, 2015a).

The industry in Saudi Arabia specifically is monitored and managed by a well-educated and professional people. The salary annual average per employee might reflect compensations for their qualifications and experience. The average annual salary in 2014 paid to the employee in the industry is SAR 476,000 (CMA, 2015a). Meeting those bankers will make the research smooth to conduct due to their knowledge, education, and keeping update with newness in investment banks and business studies.

The industry is characterized by multi-services. These services include brokerage, assets management, investment banking, custody services, and advising. Each service has its own model and activities. The multiplicity of services assists to identify the required activities by each business line to innovate business models.

2.5 CONCLUSION

The aim of this chapter was to provide an overview of Saudi investment banking sector and to justify why it was chosen as a context to study business model innovation. Saudi Arabia remains one of the largest economies in the world (G20), and is the largest economy in the MENA region. Investment banks have been forced to change their business models recently to accommodate the various changes in the country's legislation and CMA regulation. Many APs have left this highly competitive environment, and the remaining APs are constantly changing their business models to survive. Finally, the investment banking sector is worth investigating because of the existing market opportunities. The next chapter will systematically review the literature and develop a framework of business model innovation.

CHAPTER 3: LITERATURE REVIEW

3.1 INTRODUCTION

Because of the lack of a business model representation that depicts business model components, activities and highlights possible alternatives, the objective of this chapter is to systematically review the literature and develop a framework of business model innovation. This chapter will start with an outline of the systematic literature review (SLR) method. Then, it will provide a highlight of the business model innovation research by outlining what is meant by a business model and how it differs from business strategy. Next, the chapter will underscore the perspectives, theories and concepts used in the literature, followed by a review of business model innovation approaches and drivers forcing firms to change their business models. Finally, the business model innovation framework will be presented, with a discussion of each of the components and activities at the end of this chapter.

3.2 SYSTEMATIC LITERATURE REVIEW

Before identifying the final sample of articles considered for this review, this section will outline previous literature reviews, the systematic literature review methodology, sources used for collecting the relevant articles, and the selection criteria.

3.2.1 PREVIOUS REVIEWS

The first comprehensive review of business model literature was carried out by Zott et al. (2011), providing a wide review of the existing literature on business models through multiple subjects lenses for the period from 1975-2009. Since then, several reviews were published recently (George & Bock, 2011; Schneider & Spieth, 2013; Klang et al., 2014; Spieth et al., 2014; Wirtz et al., 2016).

This review builds on and extends the existing literature in at least four ways. First, unlike previous reviews that mainly focused on the general construct of 'Business Model' (George & Bock, 2011; Zott et al., 2011; Wirtz et al., 2016), our review focuses on uncovering the 'business model innovation' phenomenon by shedding light on new ways through which firms change their existing business model(s) through altering their value proposition, value creation, and value capture. Second, previous reviews do not provide a clear answer as to how firms change their business models. Our review aims to synthesise these conflicting approaches (i.e. evolutionary versus revolutionary perspectives) and provide clear guidance on the ways through which business model innovation can be achieved. Third, compared to recent reviews on business model innovation (Schneider & Spieth, 2013; Spieth et al., 2014), which have lightly addressed some innovation aspects such as streams and motivations of business model innovation research, our review will uncover the areas where alternative business models can be explored. Fourth, this review aims to discuss drivers forcing firms to innovate their business models. A summary of the review criteria relating to the search terms, period, search, databases, type, and selected final sample is presented in Table 3.1.

Table 3.1 Previous Reviews of Business Model Literature

	Zott et al. (2011)	George and Bock (2011)	Schneider and Spieth (2013)	Klang et al. (2014)	Wirtz et al. (2016)	This review
Term(s)	Business Model	Business Model	Business Model Innovation	Business Model(s)	Business Model	Business Model(s); Value Proposition; Value Creation; Value Capture
Period	1975-2009	Up to 01 Dec 2008	1981- May 2012	Up to Jan/Feb 2010	1965-2013	2010-2016
Search	Title; Keywords	All-text Topics	Keyword	Title; Abstract; Keywords	Title	Title; Abstract; Keywords
Databases	Business Source Complete	EBSCO Business Source Premiere	N/A	N/A	EBSCO Business Source Complete	EBSCO Business Complete; ABI/INFORM; JASTOR; ScinceDirect;
Type	Peer-reviewed Papers; Books; Reports; Magazines	Papers; Books; Websites; Unpublished manuscripts	Peer-reviewed journals; Recent working papers	Papers; Reviews; Editorials; Books; Reviewed publications	Papers in peer-reviewed and non-peer-reviewed journals	Peer-reviewed papers with the exception of Harvard Business Review; Top-rated Papers;
Sample	**103**	**108**	**35**	**54**	**681**	**219**

Source: Developed by (the author)

3.2.2 REVIEW METHOD

A systematic literature review (SLR) was carried out. It is defined as "*the use of ideas in the literature to justify the particular approach to the topic, the selection of methods, and demonstration that this research contributes something new*" (Hart, 1998, pp. 1-2). Unlike the conventional methods that lack explicit protocol (Petticrew & Roberts, 2008), using a more precise and clear method to reviewing the literature could provide consistent results in the topic being discussed. Moreover, SLR can keep the research in the field up-to-date with what has been done so far (Petticrew & Roberts, 2008), and what could be done in the future. Papaioannou et al. (2010) suggest that sophisticated search techniques could lead to a high quality articles compared with conventional tools. To accomplish the attributes of systematics, the review should be executed on an evident plan (protocol) that explains obvious themes, identified relevant papers and journals, judge their quality and present the evidence and patterns in a clear, explicit and rational approach (Brereton et al., 2007). Webster & Watson (2002) argue that "*An effective review creates a firm foundation for advancing knowledge*" (p. xiii). Additionally, it facilitates theory development, bring together disparate areas where a plethora of research exists, and uncovers areas where research is needed. Conducting SLR may help avoid bias where the preferences of researchers and their beliefs do not impact the outcomes of the review (Rousseaue et al., 2008).

3.2.3 SOURCES

The articles selected for this review have been published in leading journals and outstanding practitioner-oriented publications for the period 2010–2016. In the business and management fields, the impact of peer-reviewed journals has been validated cognitively (Podsakoff et al., 2005). In this review, we use the Academic Journal Quality Guide version four (Harvey et al., 2010) published by the Association of Business Schools (ABS) to identify leading publications (Table 3.2). Leading journals must (1) be highly accepted by scholars in the area; (2) be rated and reviewed by a reputable and independent association; and (3) deal with the topic as a business matter that is core to the debate. With controversy over its ratings, ABS list has been diffused among business schools in the UK as a methodological tool to determine research quality and allocate research funding (Hoepner & Unerman, 2012; Hussain, 2011). The ABS list was chosen for three reasons. First, ranking lists have been proven to offer quality assessment of journals at high level of credibility (Webster & Watson, 2002). Second, relying on an external ranking of top-tier journals may help the researchers to select journals that have a common consensus on its quality, based on proven scientific approaches. Third, this rating has been used not only because takes into account the journal 'Impact Factor' as a measure for journal quality, but also uses in conjunction other measures making it one of the most comprehensive journal ratings.

Table 3.2. Subject Fields, Journals and their Ranking

Subject fields	Total journals	3 & 4 grade Journals
Strategic management	11	4
Entrepreneurship & small business management	18	7
Business ethics and governance	16	4
Innovation	9	3
Marketing	54	17
General management	32	12
Human resources management and employment studies	35	14
International business and area studies	24	5
Information management	53	20
Operations, technology and management	40	11
Operations research and management science	33	16
Origination studies	29	9
Total	**339**	**122**

Source: Adopted from (the Academic Journal Quality Guide version 4, 2010)

3.2.4 SELECTION CRITERIA

To collect the relevant articles, the terms 'business model(s)', 'value proposition', 'value creation', and 'value capture' must be included in either the title, keywords, and/or abstract. The review covered the period from January 2010 to December 2016, as prior literature up to December 2009 was covered by Zott et al. (2011). A number of comprehensive databases in business and management journals were chosen to collect the relevant articles including: EBSCO business complete, ABI/INFORM, JASTOR, and ScinceDirect. The search for papers was conducted in three phases. The first phase started in June 2014 to cover the period January 2010 to December 2013. The second phase was carried out in February 2015 to cover 2014 (January to December). Finally, the third phase of this review was conducted in March 2017 to cover the period between January 2015 and December 2016. The same method and criteria were applied in all phases.

3.2.5 SAMPLE ARTICLES

This procedure resulted 8,642 peer-reviewed articles In EBSCO (3,403 articles), ABI/INFORM (2,735 articles), JSTOR (398 articles) and ScienceDirect (2,106 articles). By applying the above criteria, 1,682 peer-reviewed articles were retrieved including 658 articles from EBSCO business complete, 588 articles from ABI/INFORM, 109 articles from JSTOR, and 327 articles from ScienceDirect. Because of duplications, 851 articles were excluded. Before assigning the final sample, 831 peer-reviewed were considered. As Harvard Business Review is not listed among the peer-reviewed journals in any of the chosen databases and was included in the ABS list, we used the earlier criteria and found 112 additional articles using the four databases. As a result, a total of 943 articles were considered (Table 3.3).

Table 3.3. Reviewed Papers and their Subject Fields

Subject Fields	Number of Journals	Number of Papers / Year							Total No. of papers	% of papers
		2010	2011	2012	2013	2014	٢٠١٥	٢٠١٦		
Strategic management	2	25	8	3	17	7	3	19	82	8.7%
Entrepreneurship & Small business management	6	9	4	3	13	3	14	7	53	5.6%
Business ethics & governance	2	11	5	4	7	6	5	6	44	4.7%
Innovation	3	4	5	5	5	18	5	13	55	5.8%
Marketing	14	16	23	34	36	23	26	76	234	24.8%
General management	12	18	32	20	33	27	43	47	220	23.3%
Human resources management & employment studies	2	2	-	1	3	-	1	2	9	1.0%
Business & area studies	5	5	2	4	3	2	5	5	26	2.8%
Information management	13	8	6	13	14	21	13	20	95	10.1%
Operations, technology & management	8	6	9	10	14	14	11	19	83	8.8%
Operations research & management science	5	4	6	2	4	2	2	5	25	2.7%
Organisation studies	4	3	2	4	2	1	2	2	16	1.7%
International business & area studies	-	-	-	-	-	-	-	1	1	0.1%
Total	**76**	**111**	**102**	**103**	**151**	**124**	**130**	**222**	**943**	**100%**

Source: Developed by (the author)

In order to identify the relevant articles, the research focus must be on business models that could have sub-themes such as value proposition, value creation, and value capture. EndNote referencing software version X7.5 (EndNote, 2016) was used in the filtering process. Articles would contain 'business model(s)' in the title, keywords and abstract plus the word 'innovation' OR 'business model innovation' OR 'value proposition' OR 'value capture' OR 'value creation' in the title, keywords and/or abstract. This process resulted in 151 articles. In order to ensure that articles are not automatically excluded, the remaining 792 articles were reviewed manually by the researcher. This step identified a further 68 articles that could have been excluded. These articles did not appear using the filtering criteria because they did not have ('innovation' OR 'business model innovation' OR 'value proposition' OR 'value capture' OR 'value creation') in the title, keywords and/or abstract. As a result, our final sample has 219 articles. Table 3.4 lists the source of these articles.

Table 3.4 Final Sample of Articles

Journals	Number of Papers	Weighting
Harvard Business Review	42	19.2%
Long Range Planning	28	12.8%
Industrial Marketing Management	21	9.6%
R&D Management	16	7.3%
MIT Sloan Management Review	15	6.8%
Journal of Business Research	11	5.0%
California Management Review	10	4.6%
Strategic Entrepreneurship Journal	8	3.7%
Technovation	6	2.7%
Others	62	28.3%
Total	**219**	**100%**

Source: Developed by (the author)

The 219 papers were reviewed using a protocol that included areas of innovation (i.e. components, elements, and activities), theoretical perspectives, frameworks, business model innovation drivers, and key findings. In order to identify the main themes of business model innovation research, all papers were coded in relation to our research focus as to where alternative business models can be explored (i.e. value proposition, value creation, and value capture). Coding was cross checked among a random sample suggesting high accuracy between them. Having compared and discussed the results, the main themes of this review were identified.

3.3 BUSINESS MODEL INNOVATION RESEARCH

Over the last two decades, a considerable growth has been observed in studies investigating business models (Chesbrough, 2010; Morris et al., 2013). Although some argue that the expansion in the business models literature is fairly recent, and academics increased their interest in this field after 1990's (Ehret et al., 2013), the term 'business model' was coined by Drucker (1954) in his book 'The Practice of Management' (Casadesus-Masanell & Ricart, 2010; Dahan et al., 2010).

The interest in business models has been attributed to the significant surge of hi-tech and the emergence of Internet business in early 2000s (Al-Debei & Avison, 2010; Magretta, 2002; Demil & Lecocq, 2010), and the use of Internet based business to compete with incumbents already in established markets (Markides, 2013). Although this literature was mainly found in the e-business and entrepreneurship filed, they have expanded to the strategy discipline where they have arguably been more influential (Amit & Zott, 2001; Mason & Spring, 2011; Morris et al., 2013; Zott & Amit, 2008).

Looking at the evolution of business model literature, it is evident that business models literature boomed virtually in the last five years, during which around 50% of the resulted academic peer reviewed articles (3,172) were published. Prior to the year 2000, no articles were published in the area of business model innovation and only 258 articles were published thereafter (Table 3.5). Figure 3.1 shows the evolution of research in 'business model' and 'business model innovation' over the past sixteen years.

Table 3.5 Number of Articles in 'Business Model' and 'Business Model Innovation'

The Periods	Business Model	Business Model Innovation
Pre-2000	67	-
2001-2004	378	10
2005-2008	495	15
2009-2012	915	56
2013-2016	1317	177
Pre-2000 - 2016	**3,172**	**258**

Source: Adopted from (EBSCOhost research databases to search for papers in scholarly peer-reviewed journals)

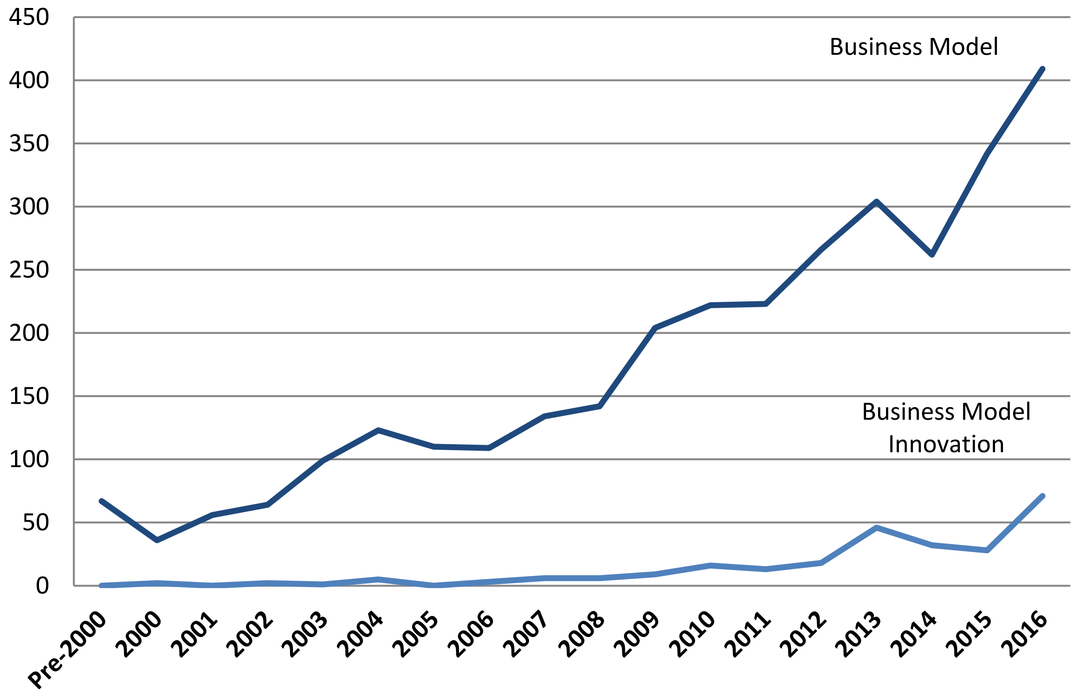

Figure 3.1. The Evolution of Business Model Literature up to 2016

Source: Adopted from (EBSCOhost research databases to search for papers in scholarly peer-reviewed journals)

3.3.1 UNDERSTANDING BUSINESS MODEL

Before reviewing the business model innovation literature, it is important to understand the business model concept. As highlighted in Table 3.6, there is no consensus on the definition of business model. This lack of a unified general definition is attributed to discussing the business model concept from different subject lenses including corporate strategy, information system, technology, management, marketing, e-business, digital, entrepreneurship, corporate social responsibility, to sustainability. Business model has been referred to as a representation/ or a system (Afuah & Tucci, 2000; Amit & Zott, 2012; Baden-Fuller & Haefliger, 2013, Wirtz et al., 2016), a logic (Baden-Fuller et al., 2008), a story (Magretta, 2002), an architecture, (Timmers, 1998) or a way (Casadesus-Masanell & Zhu, 2013; Demil & Lecocq, 2010; Teece, 2010), to design and elucidate (Amit & Zott, 2001; George & Bock, 2011; Zott & Amit, 2007), describe (Chesbrough & Rosenbloom, 2002; Osterwalder & Pigneur, 2010), or define (Iansiti & Lakhani, 2014; Teece, 2010) how firms work.

Table 3.6 Business Model Definitions

Authors (Year)	Descriptions	Cited By
Timmers (1998)	*"An architecture for products, services and information flows, including a description of various business actors and their roles; a description of the potential benefits for the various business actors; and a description of sources of revenues".*	Al-Debei & Avison, (2010), George & Bock (2011), Zott et al. (2011)
Afuah & Tucci (2000)	*"A system that is made up of components, linkages between the components, and dynamics".*	Zott & Amit (2010), Zott et al. (2011)
Amit & Zott (2001)	*"The design of transaction content, structure, and governance so as to create value through the exploitation of new business opportunities".*	Zott & Amit (2010), Zott et al. (2011), Ai-Debei & Avison (2010), Sosna et al.(2010), Casadesus-Masanell & Ricart (2010), Mason & Spring, (2011), George & Bock (2011), Coombes & Nicholson (2013), Markides & Sosa (2013), Markides (2013), Miller et al. (2014), Wei et al. (2014), Breunig et al. (2014)
Chesbrough & Rosenbloom (2002)	*"Describes the value proposition for customers, the targeted customer segment, how the offering will be produced and delivered, and expected costs and profit".*	Al-Debei & Avison (2010), George & Bock (2011), Zott et al. (2011), Priem et al. (2013)
Magretta (2002)	*"A logic story explaining who the firms' customers are, what they value, and how firms will make money providing them that value".*	Al-Debei & Avison (2010), Casadesus-Masanell & Ricart (2010), George & Bock (2011), Zott et al. (2011), McNamara et al. (2013), Wei et al. (2014), DaSilva & Trkman (2014)
Shafer et al. (2005)	*"A representation of a firm's underlying logic and strategic choices for creating and capturing value within a value network".*	Al-Debei & Avison (2010), Dahan et al. (2010), Achtenhagen et al. (2013), Coombes & Nicholson (2013), Sinkovics et al. (2014)
Osterwalder et al.(2005)	*"A conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value relationship capital, to generate profitable and sustainable revenue streams".*	Al-Debei & Avison (2010), Xiaobo et al. (2010), Loss & Crave (2011)
Morris et al. (2005)	*"A concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets".*	Zott et al. (2011), Simmons et al. (2013)
Zott & Amit (2007)	*"Elucidates how an organisation is linked to external stakeholders and how it engages in economic exchanges with then to create value for all exchange partners".*	Santos (2012), Coombes & Nicholson (2013)
Johnson et al. (2008)	*"Consists of four interlocking elements that, taken together, create and deliver value". These four interlocking elements consist of "customer value proposition", "profit formula", "key resources" and*	Zott et al. (2011), Coombes & Nicholson (2013)

	"key processes".	
Baden-Fuller et al. (2008)	*"The logic of the firm, the way it operates to create and capture value for its stakeholders".*	Casadesus-Masanell & Ricart (2010), Casadesus-Masanell & Llanes (2011)
Casadesus-Masanell & Ricart (2010)	*"A business model is . . . a reflection of the firm's realized strategy'".*	Sorescu et al. (2011), Zott et al. (2011), DaSilva & Trkman (2014)
Teece (2010)	*"Defines the way the enterprise creates and delivers value to customer … and how it will capture a portion of the value that it delivers ... and then captures a portion of this value … to make profit and grow."*	Dunford et al. (2010), Baden-Fuller & Morgan (2010), Zott et al. (2011), Simmons et al. (2013), Coombes & Nicholson (2013), Denicolai et al.(2014), Fichman et al. (2014), Frankenberger et al. (2014), Li & Garnsey (2014), Ritala et al. (2014)
Osterwalder & Pigneur (2010)	*"A business model describes the rationale of how an organisation creates, delivers and captures value".*	Coombes & Nicholson (2013) Landry et al. (2013), Miller et al. (2014)
Demil & Lecocq (2010)	*"The way activities and resources are used to ensure sustainability and growth".*	Baden-Fuller & Morgan (2010)
Amit & Zott (2012)	*"A system of interconnected and interdependent activities that determines the way the company "does business" with its customers, partners and vendors".*	-
Baden-Fuller & Haefliger (2013)	*"A system that solves the problem of identifying who is (or are) the customer(s), engaging with their needs, delivering satisfaction, and monetizing the value".*	-
Casadesus-Masanell & Zhu (2013)	*"The search for new logics of the firm and new ways to create and capture value for its stakeholders; it focuses primarily on finding new ways to generate revenues and define value propositions for customers, suppliers, and partners".*	-
George & Bock (2011)	*"The design of organizational structures to enact a commercial opportunity".*	-
Iansiti & Lakhani (2014)	*"Defined by two things: how the organization creates value for its customers (the customer value proposition) and how it captures that value (how it makes money)".*	-
Wirtz et al. (2016)	*"A simplified and aggregated representation of the relevant activities of a company. It describes how marketable information, products and/or services are generated by means of a company's value-added component. In addition to the architecture of value creation, strategic as well as customer and market components are taken into consideration, in order to achieve the superordinate goal of generating, or rather, securing the competitive advantage"*	-

Source: Developed by (the author)

From reviewing the definitions in Table 5, the following observations can be deduced:

- 'Value' seems to be emphasized as a core pillar for these definitions. Most of which mention value explicitly (see Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Magretta, 2002; Osterwalder et al., 2005; Morris et al., 2005; Zott & Amit, 2007; Baden-Fuller et al., 2008; Johnson et al., 2008; Teece, 2010; Osterwalder & Pigneur, 2010; Casadesus Masanell & Zhu, 2013; Baden-Fuller & Haefliger, 2013; Iansiti & Lakhani, 2014; Wirtz et al., 2016).
- Value proposition is expressed as an underlying logic (Chesbrough & Rosenbloom, 2002; Teece, 2010), referred to as customer value (Magretta, 2002), new business opportunities that could be exploited (Amit & Zott, 2001) or marketable information, products or services (Wirtz et al., 2016)

- Value creation represents an essential mechanism within business models (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Osterwalder et al., 2005; Zott & Amit, 2007; Baden-Fuller et al., 2008; Johnson et al., 2008; Osterwalder & Pigneur, 2010; Teece, 2010; Casadesus-Masanell & Zhu, 2013; Iansiti & Lakhani, 2014; Wirtz et al., 2016).
- Value capture, expressed as revenue model and profit formula, represents a critical business model component. The vast majority of definitions refer to value capture (Timmers, 1998; Magretta, 2002; Chesbrough & Rosenbloom, 2002; Osterwalder et al., 2005; Johnson et al., 2008; Baden-Fuller et al., 2008; Osterwalder & Pigneur, 2010; Teece, 2010; Baden-Fuller & Haefliger, 2013; Casadesus-Masanell & Zhu, 2013; Iansiti & Lakhani, 2014).

Taking the above observations into consideration, this thesis will adopt Teece's (2010) definition of business model: *"Defines the way the enterprise creates and delivers value to customer … and how it will capture a portion of the value that it delivers ... and then captures a portion of this value … to make profit and grow."* (Teece, 2010, pp. 172-179)

3.3.2 BUSINESS MODEL AND BUSINESS STRATEGY

Researchers failed to gather consensus on the apparent differences between business model and business strategy (Al-Debei & Avison, 2010), and the business and strategy scholars continue to debate the linkages between strategy and business models (Casadesus-Masanell & Ricart, 2010; Khanagha et al., 2014). While some scholars consider them to be the same and use the same terms interchangeably for conveying a unique meaning, other scholars have argued the exact opposite and claim that business model cannot be classified as being a strategy (e.g. Al-Debei & Avison, 2010).

Various scholars argue that business models should not be mixed with strategy (e.g. Magretta, 2002; Morris et al., 2005). It is widely believed that the role of the business model is aiding the respective analysis and evaluating the strategic choices that are taken by an organization (Coombes & Nicholson, 2013). Evidence indicates that business model and strategy are different elements and each of these elements affects the organization's performance (Amit & Zott, 2012). However, for sustaining a competitive advantage, these two elements are often linked (Teece, 2010).

Differences regarding an organization's business model and the strategy it adopts often arise as a result of certain actions in modifying existing business structure to face contingencies. The correlation between strategy and the business model fails to coincide in such a scenario, irrespective of whether the business model changes that are made being major or minor (Casadesus-Masanell & Ricart, 2010). However, the relationship between these two notions in stable environments is often hard to distinguish, which adds further complications for scholars and researchers trying to differentiate these terms. Table 3.7 highlights the differences between the two notions in terms of purpose, level of analysis, focus and possession.

Table 3.7. Difference Between Business Model & Business Strategy

Differences	Business Model	Business Strategy
Purpose	Used to indicate the current state of business (Dahan et al., 2010).	Relates to how an organization would move from the current position to a future desired position (Dahan et al., 2010).
	The objectives of the business model is to highlight details that would assist the organization in achieving its goals (Sorescu et al., 2011).	Goals are shaped utilizing strategy (Sorescu et al., 2011).
	The current state of a particular business is indicated through a business model (DaSilva & Trkman, 2014).	Capabilities and competencies are shaped as a result of strategy, which also alter the business model. It is used for indicating what the organization wants to become (DaSilva & Trkman, 2014)
Level of analysis	As compared to a business strategy, business models are rather generic (Teece, 2010).	As compared to business model design, strategy selection is much more granular (Teece, 2010).
	Considerably important in shaping strategy and analysing its respective consequences (McGrath, 2010).	
	Transforms strategy into interdependent mechanisms (Sorescu et al., 2011).	A comparatively abstract level (Sorescu et al., 2011).
Focus	Focus on opportunities (George & Bock, 2011).	Focus on the environment or competitors (George & Bock, 2011).
	The manner of operation and the logic behind creating stakeholder value (Casadesus-Masanell & Ricart, 2010).	Relates to the choice of business models a company would use for competing in the market (Casadesus-Masanell & Ricart, 2010).
Possession	Can be altered under an existing strategy. Often changes comparatively more than an organization's strategy (Sorescu et al., 2011).	Adopting new strategies based on innovative business models (Sorescu et al., 2011).
	Possessed by every organization, as certain choices are made those have consequences (Casadesus-Masanell & Ricart, 2010).	Not possessed by all organizations that take into accounts various contingencies (Casadesus-Masanell & Ricart, 2010).

Source: Developed by (the author)

Although a consensus on terms and differences has not yet been reached, there is agreement among scholars on certain difference that are prevalent amongst these two terms. Establishing business model construct boundaries is a necessary precursor to directing future research (George & Bock, 2011).

3.3.3 BUSINESS MODEL INNOVATION

Based on the Schumpeterian view (1934), 'innovation' can be used to refer to various types of innovations rather than those that are purely technical in nature. New ways to organize business, new market exploitation, new supply sources, new production methods, and new products are considered various types of innovation (Schumpeter, 1934). Business model innovation is an organisational innovation through which firms explore new ways to define value proposition, create and capture value for customers, suppliers, and partners (Gambardella & McGahan, 2010; Teece 2010; Bock et al., 2012; Casadesus-Masanell & Zhu 2013). Business model innovation refers to the pursuit for innovative ways in which additional value can be created and captured for the stakeholders.

Novel business models can be developed through unique value building architectures and creative revenue models in the pursuit of such innovations, which extend far beyond the domain of merely new products and services (Denicolai et al., 2014). Moreover, new business models can be developed through challenging existing assumptions and activities in order to identify untapped markets and exploit such opportunities (Mezger, 2014), and through redefining the existing offering and how it can be delivered to the customer (Markides, 2006). Although comparable to technological disruptions (Markides, 2006), business model disruptions are rather unique as their consequences are far reaching. The core value creation and capture mechanisms can often be overturned as a result of such innovations (Teece, 2010; Khanagha et al., 2014).

Business model innovation is vital for responding to competitive threats and delivering future value. As organisations are exposed to competitive threats that extend way beyond current industry boundaries (Amit & Zott, 2012), executives can use business model innovations to consider competitors actions before implementing new strategies and business models (Casadesus-Masanell & Llanes, 2011; Casadesus-Masanell & Zhu, 2013). The rise in the level of imitation, decreasing product innovation cycles, and increasing global competition pose substantial threats to manufacturers currently operating in developed countries. Diversification opportunities are increasingly being pursued by manufacturers in service business model innovation (Visnjic et al., 2013). Amit and Zott (2010) argue that Replication of a novel activity is often much more difficult for competitors than copying a particular process or product. Advantages from process and product innovations are often eroded as a result of imitator actions. However, innovating in terms of the business model could result in a sustainable competitive advantage (Amit & Zott, 2012). Rather than only being applicable to early entrants in a particular industry, business model innovation is also particularly crucial for latecomers who aim to tackle the existing competition when the structure of the industry has developed into a mass competitive market (Markides & Sosa, 2013).

Further, business model innovation has the potential of delivering future value for organizations in industries that have not seized existing opportunities (Amit & Zott, 2012). Business model innovation can help firms have clear directions as to how value would be delivered to the stakeholders (Teece, 2010), and how value proposition can be converted to generate profits for the firm (Kiron et al., 2013b).

3.4 PERSPECTIVES, THEORIES AND CONCEPTS

3.4.1 PERSPECTIVES

Several perspectives have been developed to depict business models as illustrated in Table 3.8. These perspectives emerged from different disciplines including corporate strategy (Demil & Lecocq, 2010; Eyring et al., 2011; Sinfield et al., 2012; Amit & Zott, 2012; Baden-Fuller & Haefliger, 2013; Kiron et al., 2013a; Kiron et al., 2013b; Michel, 2014; Simons, 2014; Girotra & Netessine, 2014), information system (Al-debei & Avison, 2010; Rajala et al., 2012; Weill & Woerner, 2013; Cao, 2014), technology (Xiaobo et al., 2010; Spring, 2011; Baden-Fuller & Haefliger, 2013; Dmitriev et al., 2014; Tongur & Engwall, 2014), management (George & Bock, 2011; Storbacka, 2011), marketing (Mason & Spring, 2011; Sorescu et al., 2011), innovation (Rajala et al., 2012;

Huarng, 2013), e-business (Amit & Zott, 2012; Huarng, 2013; Cao, 2014), entrepreneurship (Zott & Amit, 2010; George & Bock, 2011; Huarng, 2013; Morris et al., 2013; Sinkovics et al., 2014), social business (Yunus et al., 2010; Dahan et al., 2010; Sinkovics et al., 2014), and sustainability (Kiron et al., 2013a). Using these perspectives has led to a concept of business models that is vague and fuzzy (Al-debei & Avison, 2010), blurred and confusing (Xiaobo et al., 2010), lacks scholarly concentration (Priem et al., 2013), not well developed (Coombes & Nicholson, 2013), incomplete and misapplied (DaSilva & Trkman, 2014).

Table 3.8 Perspectives Used to Depict Business Models

Authors	Perspectives										Context		
	Strategy	Technology	Info. System	Management	Marketing	Innovation	E-Business	Entrepreneurship	Social business	Sustainability	General	Emerging markets	Undeveloped markets
Al-Debei & Avison (2010)	-	-	√	-	-	-	-	-	-	-	√	-	-
Dahan et al. (2010)	√	-	-	-	-	-	-	-	√	-	-	√	-
Demil & Lecocq (2010)	√	-	-	-	-	-	-	-	-	-	√	-	-
Xiaobo et al. (2010)	√	√	-	-	-	-	-	-	-	-	-	√	-
Yunus et al. (2010)	√	-	-	-	-	-	-	-	√		-	-	√
Zott & Amit (2010)	√	-	-	-	-	-	-	√	-	-	√	-	-
Casadesus-Masanell & Ricart, (2010)	√	-	-	-	-	-	-	-	-	-	√	-	-
McGrath (2010)	√	-	-	-	-	-	-	-	-	-	√	-	-
Eyring et al. (2011)	√	-	-	-	-	-	-	-	-	-	-	√	-
Mason & Spring (2011)	-	√	-	-	√	-	-	-	-	-	√	-	-
Sorescu et al. (2011)	√	-	-	-	√	-	-	-	-	-	√	-	-
George & Bock (2011)	√	-	-	√	-	-	-	√	-	-	√	-	-
Storbacka (2011)	-	-	-	√	-	-	-	-	-	-	√	-	-
Amit & Zott (2012)	√	-	-	-	-	-	√	-	-	-	√	-	-
Rajala et al. (2012)	√	-	√	-	-	√	-	-	-	-	√	-	-
Sinfield et al. (2012)	√	-	-	-	-	-	-	-	-	-	√	-	-
Baden-Fuller & Haefliger (2013)	√	√	-	-	-	-	-	-	-	-	√	-	-
Kiron et al. (2013a)	√	-	-	-	-	-	-	-	-	√	√	-	-
Chatterjee (2013)	√	-	-	-	-	-	-	-	-	-	√	-	-
Huarng (2013)	√	-	-	-	-	√	√	√	-	-	√	-	-
Morris et al. (2013)	√	-	-	-	-	-	-	√	-	-	√	-	-
Weill & Woerner (2013)	√	-	-	-	-	-	-	-	-	-	√	-	-
Cao (2014)	√	-	√	-	-	-	√	-	-	-	-	√	-
Dmitriev et al. (2014)	√	√	-	-	-	-	-	-	-	-	√	-	-
Girotra & Netessine (2014)	√	-	-	-	-	-	-	-	-	-	√	-	-
Sinkovics et al. (2014)	√	-	-	-	-	-	-	√	√	-	-	-	√
Tongur & Engwall (2014)	√	√	-	-	-	-	-	-	-	-	√	-	-
Michel (2014)	√	-	-	-	-	-	-	-	-	-	√	-	-
Simons (2014)	√	-	-	-	-	-	-	-	-	-	√	-	-
Taran et al. (2015)	√	-	-	-	-	-	-	-	-	-	√		
Wirtz et al. (2016)	√	-	-	-	-	-	-	-	-	-	√		

Source: Developed by (the author)

3.4.2 THEORIES AND CONCEPTS

Several frameworks were developed to depict business models using a number of theories and concepts (see Table 3.9). While some research partially uses the resources-based view (e.g. Al-Debei & Avison, 2010; Rajala et al., 2012), Demil & Lecocq (2010) used Penrose's view (1959) to build a business models framework on the basis of resources and capabilities. Other researchers built practice-driven frameworks based on porter's generic strategies (1985) to determine the process of innovating business models (Chatterjee, 2013; Eyring et al., 2011). Frameworks were also developed on the basis of causality theory (e.g. Baden-Fuller & Haefliger, 2013; Casadesus-Masanell & Ricart, 2010; Markides & Sosa, 2013). Using the entrepreneurship perspective, George & Bock (2011) argue that the opportunity-centric reconceptualization could be used to build a business model framework.

Various concepts have been used as a basis for developing new frameworks and/or used in the analysis of how firms innovate their business models. These concepts include: social business (Yunus et al., 2010), retailing (Sorescu et al., 2011), sustainability (Kiron et al., 2013a), entrepreneurship (Huarng, 2013; Sinkovics et al., 2014), discovery-driven (McGrath, 2010), risk-driven (Girotra & Netessine, 2011), value for money (Williamson, 2010), cross-channel and value chain (Cao, 2014), and customer-driven (Simons, 2014).

Table 3.9 Theories and Concepts Used in Business Model Frameworks

Theories / Concept used	Framework Developed	Theory/Concept	Author(s)
Resource Based View	Yes	Theory	Demil & Lecocq (2010), Al-debei & Avison (2010), Rajala et al. (2012)
	No		DaSilva & Trkman (2014)
Dynamic Capability	Yes	Theory	Demil & Lecocq (2010)
	No		Mezger (2014)
Activity System	Yes	Theory	Zott & Amit (2010), Chatterjee (2013)
Generic Competitive Advantage	Yes	Theory	Eyring et al. (2011), Morris et al. (2013), Chatterjee (2013)
Causality Theory	Yes	Theory	Casadesus-Masanell & Ricart (2010), Baden-Fuller & Haefliger (2013), Cao (2014)
Opportunity-Centric	Yes	Theory	George & Bock (2011)
Practice Theory	Yes	Theory	Mason & Spring (2011)
Learning Theory	No	Theory	Sosna et al. (2010)
Social Business	Yes	Concept	Yunus et al. (2010), Sinkovics et al. (2014)
Retailing	Yes	Concept	Sorescu et al. (2011), Cao (2014)
Sustainability	Yes	Concept	Kiron et al. (2013a)
	No	Concept	Kiron et al. (2013c)
Entrepreneurship	Yes	Concept	Huarng (2013), Morris et al. (2013), Sinkovics et al. (2014)
Discovery-Driven	Yes	Concept	McGrath (2010)
Risk-Driven	No	Concept	Girotra & Netessine (2011)
Value for Money	No	Concept	Williamson (2010)
Cross-Channel	Yes	Concept	Cao (2014)
Value Chain	Yes	Concept	Cao (2014)
Customer-Driven	Yes	Concept	Simons (2014)
Transaction Cost Economics	No	Theory	DaSilva & Trkman (2014)
Coopetition	No	Concept	Ritala et al. (2014)

Source: Developed by (the author)

Although enriching, studying business model innovation using a variety of disciplinary and theoretical foundations has led to further confusion and fragmentation of the literature. The next section will review the literature on the approaches used by firms to explore alternative business models.

3.5 BUSINESS MODEL INNOVATION APPROACHES

From reviewing the literature, several approaches to business model innovation exist. According to Demil and Lecocq (2010), business model innovation could be carried out through constant and dynamic approaches. The former approach is used to construct typologies and classifications to develop new business models (Huarng, 2013), and to explore the business performance of different business models (McNamara et al., 2013) or to develop a new business model. The latter view, however, looks at the way in which business models change over time (Demil & Lecocq, 2010), or how firms transform their business models (Huarng, 2013).

In addition, changing business models could be approached through an incremental modification on any component within the existing model, or through a radical disruptive approach that replaces the existing model altogether (Khanagha et al., 2014). From reviewing the literature, business model innovation can be achieved though modifying a single business model element, altering multiple business model elements simultaneously, and/or changing the interactions between business model elements.

The innovativeness of business models does not require a whole change in all activities within a business model. Changing only a variant such the core offering could lead to achieving a sustainable business model (Sinfield et al., 2012). Moreover, Amit & Zott (2012) suggest that business model innovation can be achieved through modifying any activity or who performs it. Changing one of the business model elements (i.e. content, structure, or governance) is enough to achieve business model innovation (Amit & Zott, 2012). This means that firms can have a new business model by changing only one new activity. This argument, however, does not have wide support within the literature despite Amit & Zott (2012) clear outline of their systemic view of business models which entails a holistic change. This is also evident from Demil & Lecocq's (2010) work suggesting that the study of business model innovation should not focus on isolated activities since changing a core element will not only impact other elements but also the interactions between these elements.

Another way to change business models is through altering multiple activities simultaneously. Kiron et al. (2013a) found that companies combining target customers with value chain innovations and changing one or two other elements of their business models tend to profit from their sustainability activities. They also found that firms changing 3 to 4 elements of their business models tend to profit more from their sustainability activities compared to those changing only one element. Moreover, Dahan et al. (2010) found that a new business model was developed as a result of multinationals and non-governmental organization collaboration by redefining value proposition, target customers, governance of activities, and distribution channels. Companies can explore multiple combinations by listing different business model options (desirable, discussable and unthinkable) and evaluate new combinations that would not have been considered otherwise (Sinfield et al., 2012).

Taran et al. (2015) identified the approaches to qualify a new business model innovation by developing a three-dimensional (business model) innovativeness scale. These approaches include radicality, reach and complexity. In the first two approaches aims defining the change in the way a firm does business and to whom. The third refers to the change in business models components to measure the number of changed building blocks. By identifying seven building blocks for business model innovation, they found that 1) It is not required to change all building blocks to innovate business models 2) all business model innovation required to change two building blocks namely target customer and profit formula 3) the simpler form of innovation required changing two more blocks including core competences and partner network 4) the complex form varied from 5 to 7 changes included In all cases value proposition, target customers, value chain, and profit formula.

Changing business models can to be demanding and requires a systemic and holistic view (Amit & Zott, 2012) of the relationships between core business model elements (Demil & Lecocq, 2010). As previously mentioned, changing one element will not only impact other elements but also the interactions between business model elements. A firm’s resources and competencies, value proposition, and organizational system are continuously interacting and this will in turn impact business performance either positively or negatively (Demil & Lecocq, 2010). According to Zott and Amit (2010), innovative business models can be developed through linking activities in a novel way that generates more value. They argue that alternative business models can be explored by configuring business model design elements (e.g. governance) and connecting them to distinct themes (e.g. novelty). Supporting this, Eyring et al. (2011) suggest that core business model elements need to be integrated in order to create and capture value (Eyring et al., 2011).

Experimentation has been advocated as a way to exploit opportunities and develop alternative business models before committing investments (Chesbrough, 2010; McGrath, 2010; Sosna et al., 2010; Dunford et al., 2010; Andries et al., 2013). Business model experimentation is "*the pursuit of growth through the methodical examination of alternative business models*" (Sinfield et al., 2012, p. 85). Experimenting with new ideas and business opportunities has been identified as one of the critical capabilities needed to develop new business models and to achieve sustained value creation (Achtenhagen et al., 2013). By engaging in business model experimentation, firms are able to achieve three goals: understand the implications of different business models, identify the business model that will create most value, and exploit the potential of growth-focused activities (Sinfield et al., 2012). According to Chesbrough (2010), firms must adopt a positive attitude towards experimentation even though some experiments will be bound to fail. This failure is encouraged because it informs new understanding.

Several methods have been developed to assist in business model experimentation (mapping approach, discovery-driven planning, and trial-and-error learning). Mapping approach has been suggested as a way to experimentation by clarifying existing business model's components and considering alternative combinations (Chesbrough, 2010). Moreover, discovery-driven planning has been advocated as another approach to experimentation where business model assumptions are articulated and tested (McGrath, 2010). Having found an opportunity, a company can experiment with new business models before committing additional investments. According to Sosna et al. (2010), business model innovation can be achieved through trial-and-error learning. Using a longitudinal case study, they shed light on how a firm develops its business model through an initial experiment followed by constant fine-tuning based on trial-and-error learning. They conclude that learning from failed experiments and the resilience to continue experimenting are crucial in exploring alternative business models. Sinfield et al. (2012) argue that experimentation can be used to identify new business models. Their approach starts with examining possible alternative answers to key business model questions, then exploring different combinations, and finally deciding on what can (not) be changed. Even though much of the research here is informed by practice literature, it advocates a non-revolutionary process of experimentation as a way to develop innovative business models.

In order to create value and deliver it to customers, it is critical not only to consider the firm's internal functions and activities (e.g. operation, finance …etc.), but also to assess the external environment in which the firm operates (Teece, 2010). Thus, the next section will explore the drivers forcing firms to innovate their business model.

3.6 BUSINESS MODEL INNOVATION DRIVERS

Drivers play a crucial role to stimulate business model innovation and respond to changes in the external environment. The business model drivers are referred to as 'emerging changes', which are usually beyond manager's control (Demil & Lecoc, 2010). Inconclusive findings exist as to how firms develop innovative business models in response to changes in the external environment. Also, the questions of when do firms embark on business model innovation and which drivers influence such action remain unanswered. From reviewing the literature, drivers of business model innovation have been referred to as barriers (Achtenhagen et al., 2013; Bock et al., 2012; Sorescu et al., 2011), challenges (Khanagha et al., 2014), constraints (Sinkovics et al., 2014), and antecedents (Zott et al., 2011; Frankenberger et al., 2014). These drivers have been proven to influence firms' business performance (Sorescu et al., 2011; Sosna et al., 2010; Gambardella & McGahan, 2010; Amit & Zott, 2012; Achtenhagen et al., 2013; Sebastiani et al., 2013), future growth (Gilber et al., 2012), firm's value (Eyring et al., 2011; Hienerth et al., 2011), competitive advantages (Sorescu et al., 2011; Teece, 2010), and strategic flexibility (George & Bock, 2011).

From reviewing the literature, drivers of business model innovation could be categorized into three levels: economy, industry and firm. Firstly, economy-level drivers result from actors beyond firms' control and affect all competitors and their partners. These drivers represent a real threat or opportunity to firms taking an "out-in" perspective. Four drivers stand out including: regulations, external stakeholders, crisis and economic changes, and competition (see Table 3.10 for a summary). Secondly, industry-level drivers refer to drivers within the competitive environment. They tend to mainly come from competitors, partners or clients. Six drivers stand out including: substitutes, imitation, technologies & innovations, rivalry, industry demand and services providers/suppliers (these are summarized in Table 3.11). Thirdly, firm-level drivers are internally-driven factors. Firms tend to be influenced by management creativity to design their business models. Three drivers stand out including clients, culture and top management (see Table 3.12).

Table 3.10 Economy-Level Drivers

Drivers	Description	Studies
Regulations	This relates to new regulations or changing the legal environment issued by authorities that might could present both opportunities and threats. It includes trade liberalization in which the available choices will be expanded as well as government's arrangements to enhance markets and subsidize the consumers in developing nations.	Casadesus-Masanell & Ricart (2010), Teece (2010), McGrath (2010), Cliffe (2011), Demil & Lecocq (2010), Sosna et al. (2010), Govindarajan & Trimble (2011), Keen & Williams (2013), Iansiti & Lakhani (2014), Simons (2014), Cao (2014), Walske & Tyson (2015), Raventós & Melgarejo (2016)
External Stakeholders	This represents the pressure coming from external organizations to engage with or change business models. Political pressure can be influential in instances of natural resources scarcity. Also, social community may pressure firms to change their policy. This driver includes investors' pressure for growth in earning.	Govindarajan & Trimble (2011), Rajala et al. (2012), Sebastiani et al. (2013), Kiron et al. (2013a), Miller et al. (2014), Li & Garnsey (2014)
Crisis & Economic Changes	Economic downturn, a financial crisis, or the environmental economical variability affect the overall ecosystem. Turbulence in the market requires firms to be resilient and innovative. Economic trends can impact customers and industries favourably and/or unfavourably, which in turn force firms to adapt their business models.	Zott & Amit (2010), Sosna et al. (2010), Demil & Lecocq (2010), Loss & Crave (2011), Bock et al. (2012), Rajala et al. (2012), Benson-Rea et al. (2013), Botsman (2014), Iansiti & Lakhani (2014), Raventós & Melgarejo (2016)
Global Competition	Because of advancement in technology, competitors could emerge from other industries and from overseas.	Casadesus-Masanell & Ricart, (2010), Williamson (2010), Govindarajan & Trimble (2011), Visnjic et al. (2013), Sinkovics et al. (2014), Taran et al. (2015)

Source: Developed by (the author)

Table 3.11 Industry-Level Drivers

Drivers	Description	Studies
Substitutes	Emerging substitutes might require changing a firm business model to protect their core offering. New substitutes might be cheaper than the firm core offering.	Demil & Lecocq (2010), Eyring et al. (2011), Downes & Nunes (2013), Govindarajan & Ramamurti (2013), Auletta (2015)
Imitation	The growth of imitators, in particular, in a weak intellectual property protection environment, threatens firms' core value propositions. Organisations, as a result, look for ways to conceal their business models. Cross-industry imitation can destroy existing business models and create new ones.	Casadesus-Masanell & Zhu (2013), Govindarajan & Ramamurti (2013), DaSilva & Trkman (2014), Mezger (2014), Zhu & Furr (2016)
Technologies & Innovations	A new disruptive technology or innovation could change the game in the market. These technologies and innovations could be from other industries and markets. Thus, these innovation and technology threaten the status quo within and industry and could present business opportunities.	Teece (2010), Casadesus-Masanell & Ricart (2010), Dewald & Bowen (2010), Grönlund et al. (2010), Cliffe (2011), Govindarajan & Trimble (2011), Clark et al. (2012), Visnjic et al. (2013), Dmitriev et al. (2014), Fichman et al. (2014), Cao (2014), Iansiti & Lakhani (2014), Khanagha et al. (2014), Mezger (2014), Simons (2014), Tongur & Engwall (2014), Osiyevskyy & Dewald (2015a), Auletta (2015), Karimi & Walter (2016), Velu (2016a), Christensen et al. (2016)
Rivalry	Intense competition among incumbents' drives companies to look for new ways of creating and capturing value. In market with homogeneous products, firms compete on the basis of prices and innovative cost structures. To maintain their margins, firms need to consider changing their existing business models. Bankruptcy of competitors may be an important indicator of changing business models so that a firm could take advantage of favourable opportunities. This also includes new and aggressive competitors and entrants with disruptive business models trigger incumbents to change their existing business.	Dewald & Bowen (2010), Demil & Lecocq (2010), Williamson (2010), Romero & Molina (2011), Cliffe (2011), Hienerth et al. (2011), Clark et al. (2012), Morris et al. (2013), Casadesus-Masanell & Zhu (2013), Markides & Sosa (2013), Ritala et al. (2014), Simons (2014), Cao (2014), Kiron et al. (2013c), DaSilva & Trkman (2014), Frankenberger et al. (2014), Sinkovics et al. (2014)
Industry Demand	This refers to the demand arising from the industry itself, the needs of industry incumbents are currently not met, or extreme problems required solving. Firms could change their business models to serve other incumbents' customer base.	Chakravorti (2010), Velu & Stiles (2013), Cao (2014)
Services Providers /Suppliers	The increase in costs or scarcity of resources resulted from firms' suppliers may affect firms' business models including value proposition, operations or profit margins. Also, collaborating with suppliers and/or services providers might encourage firms to innovate their business model through open models or outsource many activities.	Casadesus-Masanell & Ricart (2010), Demil & Lecocq (2010), Loss & Crave (2011), Frankenberger et al. (2014), Peters et al, (2015), Bogers et al. (2015)

Source: Developed by (the author)

Table 3.12 Firm-Level Drivers

Drivers	Description	Studies
Clients	Customers' needs, experiences, appetites and feedback motivate firms to rethink their business models. This driver relates to the value proposition of a firm's core offering. Customers past knowledge, opinions and ideas regarding the received value might drive firms to change their business models. Customer expectations such as unresolved problem, an emotional or social need preferences or inadequate available solutions are considered to be vital driver for innovative business models.	McGrath (2010), Govindarajan & Trimble (2011), Loss & Crave (2011), Hienerth et al. (2011), Cliffe (2011), Schenkel et al.(2012), Benson-Rea et al. (2013), Blank (2013), Chatterjee (2013), Cao (2014), Dmitriev et al. (2014), Furr & Dyer (2014), Kiron et al. (2013c), Simons (2014), Sinfield et al. (2014), Amit & Zott (2015)
Culture	While some firms may be creative with necessary strategic flexibility to constantly adapt their business models, other firm choose to deliver old value propositions. Employee commitments to venture into new territories signify a culture for innovation and a solid platform to discover opportunities and reinvent their business models.	Zook & Allen (2011), Bock et al. (2012), Rajala et al. (2012), Achtenhagen et al. (2013), Ignatius (2014), Hock et al. (2016)
Top Management	The enthusiasm of executives and their growth visions will affect their existing business models. Top management cumulative experience, their abilities to use resources efficiently, opportunities' recognition and their creative use of unneeded resource to find unmet necessities are ways to change their business models.	Chakravorti (2010), Demil & Lecocq (2010), McGrath (2010), Sosna et al. (2010), Morris et al. (2013), Michel (2014), Sinkovics et al. (2014), Botsman (2014), Osiyevskyy & Dewald (2015b), Martins et al. (2015)

Source: Developed by (the author)

Some of the reported consequences of business model innovation include new value proposition (Demil & Lecocq, 2010; Eyring et al., 2011; Hienerth et al., 2011), revenue model (Hienerth et al., 2011), gross margins (Sosna et al., 2010), cost structure (Govindarajan & Ramamurti, 2013; Williamson, 2010), cash flow (Sorescu et al., 2011), productivity (Yunus et al., 2010), reducing risk (Girotra & Netessine, 2011), modification key resources (Hienerth et al., 2011), social value (Dahan et al., 2010; Yunus et al., 2010), sociological aspects (Loss & Crave, 2011), sustainability (Kiron et al., 2013a), changing competitive environments and markets (Sorescu et al., 2011), and incumbent competitors (Casadesus-Masanell & Zhu, 2013).

Although we know more about how firms define value proposition, create and capture value (Landau et al., 2016; Velu & Jacob, 2016), what remains as a blind spot is the mechanism of business model innovation. The literature lacks the integration of internal and external perspectives of business model innovation. Very few studies look at the external drivers of business model innovation and the associated internal changes. It is still unclear to what extent these drivers influence firms to change/redesign their existing business models. Active and reactive responses need to be explored not only to understand the external influences, but also what business model changes are necessary for such responses. A better understanding of the mechanisms of business model innovation can be achieved by not only exploring the drivers, but also linking them to specific internal changes in business models' activities. Although earlier contributions of linking studies to established theories such as the resource-based view, transaction cost economics, activity systems perspective, dynamic capabilities, and practice theory have proven to be vital in advancing the literature (see Table 9), developing a theory that elaborates on the antecedents, consequences, and different facets of business model innovation is still needed (Sorescu et al., 2011).

3.7 BUSINESS MODEL INNOVATION FRAMEWORK

Although several frameworks have been developed, our understanding of business model innovation is still limited. From reviewing prior conceptualisations, some representations ignore the elements and/or activities where alternative business models can be explored (e.g. Sinfield et al., 2012; Chatterjee 2013; Huarng 2013; Morris et al., 2013; Dmitriev, et al., 2014; Girotra & Netessine, 2014), ignore value proposition (e.g. Zott & Amit, 2010), ignore value creation (e.g. Dmitriev et al., 2014; Michel, 2014), ignore value capture (e.g. Mason and Spring 2011; Sorescu et al., 2011; Storbacka, 2011), and/or ignore who is responsible for the innovation (e.g. Casadesus-Masanell & Ricart, 2010; Sinfield et al., 2012; Chatterjee, 2013; Kiron et al., 2013a). Synthesising the different contributions into a framework of business model innovation will enable a better understanding of how firms carry out business model innovation.

The developed framework (Figure 3.2) integrates all the elements where alternative business models can be explored. Because of the fragmentation of the conceptual frameworks in the literature based on various theories, this study did not adhere to a specific theory in order to identify activities and components. Thus the aim if this study id to identify the core activities where a business model innovation can occur. This framework does not claim that the listed elements are definitive for high-performing business models, but an attempt to outline the elements associated with business model innovation. Unlike previous frameworks that mainly consider the constituting elements of business models, this framework focuses on areas of innovation where alternative business models can be considered. Moreover, this is not a static view of the constituting elements of a business model, but rather a view enabling firms to explore alternative business models by continually refining these elements. Arrows in the framework indicate the continuous interaction of business model elements. This framework consists of four components namely value proposition, operational value, human capital, and financial value and sixteen activities (see Table 13).

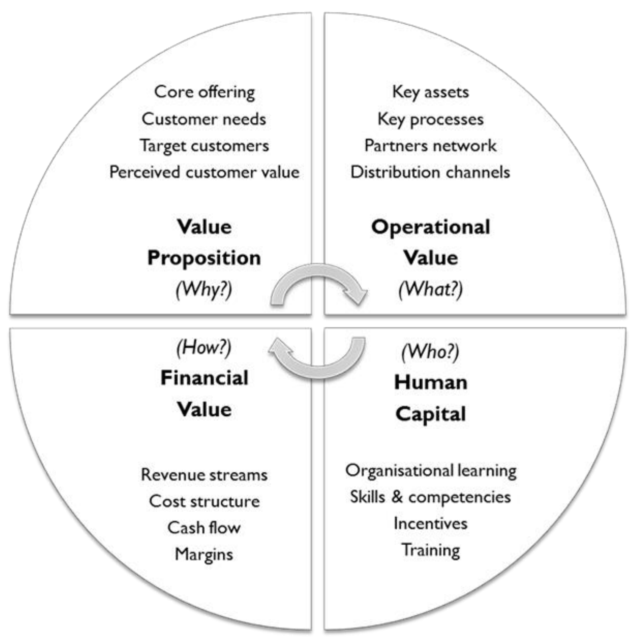

Figure 3.2 Business Model Innovation Framework

Source: Developed by (the author)

Value proposition refers to activities associated with answering the “Why” questions. These activities include describing the segment(s) of customers a company wants to offer value to, uncovering what consumers are trying to accomplish with products/ services they use, investigating alternative offerings that consumers buy, and being aware of what customers are doing with their products/ services. Operational value denotes activities associated with answering the "What" questions. These activities include identifying key assets and processes required to deliver the value proposition, exposing the various means by which a company reaches out to customers, and establishing links with key partners and suppliers. Human capital refers to activities associated with answering the "Who" questions. These activities include outlining the competencies needed to execute specific activities, motivating and organizing individuals to perform their roles, developing required skills and competencies, and encouraging experimentation with new ways of doing business. Financial value denotes activities associated with answering the "How" questions. These activities include deciding how much to charge for a product/ service, determining the financial viability of a business, describing the ways a company pursues to generate revenues, and assessing the profitability of a business. The next section will discuss in detail each component and associated activities.

Table 3.13 Business Model Innovation Components and Activities

Components	Activities	Relevant Questions	Studies
Value Proposition (*Why?*)	**Core Offering**	Why our products/ services?	Al-Debei & Avison (2010), Xiaobo et al. (2010), Yunus et al. (2010), Eyring et al. (2011), Mason & Spring (2011), Sinfield et al. (2012), Rajala et al. (2012); Kiron et al. (2013a), Taran et al. (2015), Landau, et al. (2016), Cortimiglia et al. (2016), Wirtz et al., (2016)
	Customer Needs	Why customers purchase our products/ services?	Al-Debei & Avison, 2010, Zott & Amit (2010), Eyring et al. (2011), Amit & Zott (2012), Sinfield et al. (2012), Baden-Fuller & Haefliger (2013), Kiron et al. (2013a)
	Target Customers	Why target the current segment(s)?	Al-Debei & Avison, 2010; Xiaobo et al. (2010), Yunus et al. (2010), Sinfield et al. (2012), Baden-Fuller & Haefliger (2013), Kiron et al. (2013a), Dmitriev et al. (2014), Peters et al. (2015), Taran et al. (2015), Landau, et al. (2016), Cortimiglia et al. (2016), Wirtz et al. (2016)
	Perceived Customer Value	Why customers choose us?	Eyring et al. (2011), Amit & Zott (2012), Taran et al. (2015), Wirtz et al. (2016)
Operational Value (*What?*)	**Key Assets**	What assets do we need?	Casadesus-Masanell & Ricart (2010), Eyring et al. (2011), Dmitriev et al. (2014), Kohler (2015), Cortimiglia et al. (2016), Wirtz et al. (2016)
	Key Process	What processes do we require?	Eyring et al. (2011), Mason & Spring (2011), Taran et al. (2015), Cortimiglia et al. (2016), Wirtz et al. (2016)
	Partners Network	What relationships should we consider?	Al-Debei & Avison, 2010, Demil & Lecocq (2010), Xiaobo et al. (2010), Eyring et al. (2011), Mason & Spring (2011), Sinfield et al. (2012), Rajala et al. (2012), Kiron et al. (2013a), Dmitriev et al. (2014), Kohler (2015), Peters et al. (2015), Taran et al. (2015), Cortimiglia et al. (2016), Wirtz et al. (2016)
	Distribution Channels	What channels can deliver our products/ services?	Xiaobo et al. (2010), Eyring et al. (2011), Sinfield et al. (2012), Taran et al. (2015), Kohler (2015), Cortimiglia et al. (2016), Wirtz et al. (2016)
Human Capital (*Who?*)	**Organisational Learning**	Who should be engaged in knowledge transfer activities?	Yunus et al. (2010); Sinfield et al. (2012)
	Skills & Competencies	Who should execute specific activities?	Al-Debei & Avison (2010), Xiaobo et al. (2010), Demil & Lecocq (2010), Zott & Amit (2010), Casadesus-Masanell & Ricart (2010), Eyring et al. (2011), Sorescu et al. (2011), Amit & Zott (2012), Sinfield et al. (2012), Taran et al. (2015), Landau et al. (2016)
	Incentives	Who should be reward?	Sorescu et al. (2011), Brea-Solís et al. (2015)
	Training	Who requires development to carry out specific activities?	Demil & Lecocq (2010), Kiron et al. (2013a)
Financial Value (*How?*)	**Revenue Streams**	How do we generate revenue?	Al-Debei & Avison, 2010, Demil & Lecocq (2010), Xiaobo et al. (2010), Yunus et al. (2010), Eyring et al. (2011), Amit & Zott (2012), Rajala et al. (2012), Baden-Fuller & Haefliger (2013), Kiron et al. (2013a), Dmitriev et al. (2014), Michel (2014), Taran et al. (2015), Kohler (2015); Peters et al. (2015), Landau, et al. (2016), Cortimiglia et al. (2016), Wirtz et al. (2016)
	Cost Structure	How do we cost our products/ services?	Al-Debei & Avison, 2010, Demil & Lecocq (2010), Xiaobo et al. (2010), Yunus et al. (2010), Eyring et al. (2011), Baden-Fuller & Haefliger (2013), Kiron et al. (2013a), Dmitriev et al. (2014), Michel (2014), Kohler (2015); Taran et al. (2015), Landau, et al. (2016), Cortimiglia et al. (2016), Wirtz et al. (2016)
	Cash flow	How should we manage cash-flow?	Yunus et al. (2010), Sorescu et al. (2011), Baden-Fuller & Haefliger (2013), Wirtz et al. (2016)
	Margins	How much surplus can we make?	Demil & Lecocq (2010), Xiaobo et al. (2010), Yunus et al. (2010), Eyring et al. (2011), Sorescu et al. (2011), Sinfield et al. (2012), Dmitriev et al. (2014), Taran et al. (2015)

Source: Developed by (the author)

3.7.1 VALUE PROPOSITION

Value proposition is a central component of business models and has been included in many business model innovation frameworks. Zott & Amit (2010) argue that the ultimate objective of a business is to create value in order to meet customer needs. This business model component has been considered as the starting point for the analysis/redesign of business models (e.g. Xiaobo et al., 2010; Eyring et al., 2011; Amit & Zott, 2012; Sinfield et al., 2012; Kiron et al., 2013a), a cornerstone to innovate business models (e.g. McGrath, 2010; Bock et al., 2012; Chatterjee, 2013), and significantly associated with high-growth firms (e.g. Chandler et al., 2014).

The consumers are heterogeneous in their demands and in evaluating value propositions. The heterogeneity in demands is expected to reveal the different value propositions to be considered by top management. Customers demand, views and their diversified judgment in value propositions require full-attention by firms taking an "*out-in*" perspective (Sinfield et al., 2014) to find propositions that are relevant to their business. If a firm's value proposition is not accepted by buyers and has a low market share, then the firm is undoubtedly missing the grasp of its targeted clientele (Teece, 2010). Thus, there is a need to find ways to understand the value proposition and appraise its nature in the market (Schenkel et al., 2012).

From our review of the literature, the questions that need to be addressed for this component are "*Why*" questions. Firms with convincing value proposition can address why the value proposition offered will target specific segment(s), attract customers to buy, respond to customer needs, and encourage customers to be involved. Thus, four activities have been found to be associated with value proposition namely core offering, targeted customers, customer needs, and perceived customer value. Each of these activities will be outlined below.

3.7.1.1 Core Offering

Why our products/ services?

The core offering could be goods, services, platform and/or solutions (Teece, 2010). Many firms make substantial investments in products as their core offerings, and do not give much attention to new ideas and innovative offerings that update their customers' experiences and affect their competitiveness (Skiera et al., 2011). In order to innovate their business models, firms need to assess their product portfolio and have a clear understanding of why customers are more attracted towards particular offerings. This will help reduce the associated risks in the unforeseen future of customer demands (Girotra & Netessine, 2014).

3.7.1.2 Customer Needs

Why customers purchase our products / services?

By assessing customer needs, firms are able to identify opportunities that have not yet been offered, and/or uncover the current offering that has been performing poorly (Eyring et al., 2011; Weill & Woerner, 2013). The customer's needs, occasionally, rise when people looking for the next upgrade or innovation (Cliffe, 2011). To change their business models, firms need to be aware of the reasons behind customer purchases and adapt the business model accordingly.

3.7.1.3 Target Customers

Why specific segment(s)?

In order to have an effective value proposition, firms need to identify which customers will be targeted. Business models aim to deliver the value developed to targeted customers (Sinfield et al., 2012, Cao, 2014). These customers are usually willing to pay for a job that needs doing (Eyring et al., 2011). Identifying and targeting primary customers (Simons, 2014) will refocus the business to deliver the value position to them. To innovate their business models, firms may choose to change their targeted customers.

3.7.1.4 Perceived Customer Value

Why our customers choose us?

Dealing with customer perceptions and experiences of a firm's core offering(s) can help strengthen a firm's value proposition. Interactions between firms and their customers usually add value to both sides (Romero & Molina, 2011); seeking customer feedback will help firms test the effectiveness of their value proposition (Lusch et al., 2010; Blank, 2013). Noteworthy, not all innovative ideas stem from firms internal boundaries (Grönlund et al., 2010), but also from engagement with customers. Firms are continuously changing and adapting their business models in order to satisfy their customer demands.

Table 3.14 Studies of Value Proposition

Author(s)	Component(s)	Sub-component(s) / Question(s)
Al-Debei & Avison (2010)	• Value Proposition	
Dahan et al. (2010)	• Target customers • Value proposition	
Demil & Lecocq (2010)	• Value propositions	• How and to whom the offer will be
Xiaobo et al. (2010)	• Value proposition	
Yunus et al. (2010)	• Value Proposition	• Customers • Product-service
McGrath (2010)	• The basic 'unit of business'	• What customers pay for
Eyring et al. (2011)	• The customer value proposition	• Pricing • Payment scheme • Type of offering • Access options
Storbacka (2011)	• Create demand	• Value proposition
Amit & Zott (2012)	• Business model content innovation	• What perceived needs can be satisfied through the new model design? • What novel activities are needed to satisfy these perceived needs?
Rajala et al. (2012)	• Offering	
Sinfield et al. (2012)		• Who is the target customer? • What need is met for the customer? • What offering will we provide to address that need?
Baden-Fuller & Haefliger (2013)	• Customer identification • Customer engagement	
Kiron et al. (2013a)	• Value proposition	• Target segments • Which customers do we choose to serve? • Which of their needs do we seek to address? • Product or service offering • What are we offering customers to satisfy their needs?)
Huarng (2013)	• Conceptual model	• Innovation • Market • Value
Morris et al. (2013)	• Strategy Model	• Source of market differentiation
Weill & Woerner (2013)	• Content	• Information • Products

Cao (2014)	• Choices concerning target clients • The shoppers' value proposition	
Dmitriev et al. (2014)	• Customer value proposition • Target market segment(s)	
Girotra & Netessine (2014)		• What mix of Products or Services Should You Offer? • Focus narrowly • Search for commonalities across • Products Create a hedged portfolio
Sinkovics et al. (2014)	• Value proposition • Target customer • Relationship • Change in offering • Change in strategy	
Tongur & Engwall (2014)	• Value proposition	• The value of the products and services that the company offers to its customers
Simons (2014)		• Identifying the best primary customer for business • Understand What the Primary Customer Values • identify which product and service attributes the customer values
Taran et al. (2015)	• Value proposition • Target customers • Customer relations	
Wirtz et al. (2016)		• BM Value proposition • Customer relationship/target groups • Value offering/products and services

Source: Developed by (the author)

3.7.2 OPERATIONAL VALUE

Operational value refers to a firm's position within the value creation activity (Ehret et al., 2013). Many firms struggle to explain how their business models operate and cannot explain their core processes due to existing assets configuration (Amit & Zott, 2001). Eyring et al. (2011) suggest that integrating resources with processes would produce value for both customers and the firm. Firms can change their existing business model(s) by discovering new mechanisms to create value (Sinfield et al., 2012). From our review of the literature, the questions that need to be addressed for this component are "*What*" questions. Four activities have been found to be associated with operational value namely key assets, key process, partner's network and distribution channels. Each of these activities will be outlined below.

3.7.2.1 Key Assets

What assets do we need?

Firms need to assign the required assets, regardless of what these assets are (tangible or intangible), ensure that the assets are used efficiently, and manage unused assets (Chakravorti, 2010). To reduce operations complications and additional investment, firms are rethinking their assets and whether to outsource them (McGrath, 2010). Bundling assets in different ways can produce diverse business models (Markides & Sosa, 2013).

3.7.2.2 Key Process

What processes do we require?

Firms changing their existing business models or creating new ones are rethinking their key processes. Firms undergoing transformation are using a fixed process that permits them to reuse the same resources for existing and projected innovative business model (Clark et al., 2012). In order to eliminate imitation, firms are resorting to complicating business processes, which are the 'DNA' of the business (Girotra & Netessine, 2011). As a way to decrease imitation from competitors (Teece, 2010) and place constraints to hinder it (Denicolai et al., 2014), firms are changing their business processes.

3.7.2.3 Partners Network

What relationships should we consider?

Partners and suppliers include parties that arrange, manage and take decisions regarding core assets (Girotra & Netessine, 2014). They play a crucial role in the value creation (Sorescu et al., 2011). The most advantageous factor in value co-creation is to benefit from a set of resources and expertise available to all parties within a contractual relationship (Yunus et al., 2010). Thus, firms are reaching out to their partners whose decisions regarding available resources and delivery channels are critical to adapting their business models.

3.7.2.4 Distribution Channels

What channels can deliver our products/ services?

Choosing distribution channels is critical to show how value is delivered to customers for the purpose of generating returns (Teece, 2010). Competitive business models are characterized with vertical effectiveness in terms of a robust system of suppliers and delivery channels (Ritala et al., 2014). Firms innovating their business models are delivering value through uncommon distribution channels (McGrath, 2010). Therefore, it is essential for firms undertaking business model innovation not only to consider the partners and suppliers, but also the distribution channels used to deliver their products and services.

Table 3.15 Studies of Operational Value

Author(s)	Component(s)	Sub-component(s) / Question(s)
Al-Debei & Avison (2010)	• Value architecture • Value network	
Dahan et al. (2010)	• Distribution channels	
Demil & Lecocq (2010)	• The resources and competences • The organizational structure	• Value chain of activities • Value network
Xiaobo et al. (2010)	• Value Network	• Customer Interface • Infrastructure Configuration
Yunus et al. (2010)	• Value Constellation	• Internal value chain • External value chain
Zott & Amit (2010)	• Activity system structure	
Casadesus-Masanell & Ricart (2010)	• The concrete choices how the organization must operate	• Policies • Assets
McGrath (2010)	• Process or operational advantages	
Eyring et al. (2011)	• key resources • key processes	• Brand People • Technology • Partnerships • Channel • R&D • Manufacturing • HR • Marketing
Mason & Spring (2011)	• Technologies • Network architecture	• Product • Process • Infrastructure • Market and standards • Capabilities • Transaction • Relationships
Sorescu et al. (2011)	• Retailing format	
George & Bock (2011)	• Resource structure • Transactive structure	

	• value structure	
Storbacka (2011)	• Develop solutions • Deliver solution	
Amit & Zott (2012)	• Business model structure innovation	• How could the required activities be linked to each other in novel ways?
Rajala et al. (2012)	• Resources • Relationships	
Sinfield et al. (2012)		• How does the customer gain access to that offering? • What role will our business play in providing the offering?
Baden-Fuller & Haefliger (2013)	• Value delivery and linkages	•
Kiron et al. (2013a)	• Operating model	• Value Chain • How are we configured to deliver on customer demand? • What do we do in-house? • What do we outsource?
Huarng (2013)	• Conceptual model	• Resource
Morris et al. (2013)	• Operating Model	• How and where value is created • Core internal competencies
Weill & Woerner (2013)	• Platform	• Internal • External
Cao (2014)	• The retail value chain	
Dmitriev et al. (2014)	• Partners' network • Key resources • Key assets	
Girotra & Netessine (2014)		• Pass the decision risk to the party that can best manage the consequences • Synchronize the time horizons in outsourcing
Sinkovics et al. (2014)	• Distribution channel • Value configuration • Partner network	
Tongur & Engwall (2014)	• Value creation	• How this value is created?
Simons (2014)	•	• Allocate resources to win
Taran et al. (2015)	• Value chain architecture • Partner network	
Wirtz et al. (2016)		• Core assets and assets • BM networks • BM partners • Channels configuration • Manufacturing model • Value generation

Source: Developed by (the author)

3.7.3 HUMAN CAPITAL

A large number of firms are unable to change/ redesign their business models because of executives' cognitive barriers (Dewald & Bowen, 2010), managerial inactivity and inertia (Sorescu et al., 2011; Bock et al., 2012; Achtenhagen et al., 2013), resistance to change (Williamson, 2010; Hienerth et al., 2011; Bock et al., 2012), competencies availability (Sosna et al., 2010), short-term pressure and risk aversion (Govindarajan & Trimble, 2011), and lack of knowledge in execution (Chatterjee, 2013).

To change their business models, firms are learning from and experimenting with new ideas and models even when they prove unsuccessful (Teece, 2010). Defining opportunities and transforming them into unique business models require capabilities and competencies (Furr & Dyer, 2014; Mezger, 2014). To build these capabilities, firms have used incentive and hiring policies (Casadesus-Masanell & Llanes, 2011). From our review of the literature, the questions that need to be addressed for this component are "*Who*" questions. Four activities have been found to be associated with human capital namely skills and competencies, incentives, training and organizational learning. Each of these activities will be outlined below.

3.7.3.1 Organizational Learning

Who should we engaged in the knowledge transfer activities?

To exploit business opportunities, firms are experimenting with new ideas to develop new business models (McGrath, 2010; Khanagha et al., 2014). Actors engaged in this process will require a certain level of knowledge to effectively carry out business model innovation (Yunus et al., 2010). The risk associated with business model innovation could be reduced by having a supportive learning environment (Khanagha et al., 2014). High performing firms learn from their failures and faults quickly and consistently compared with rivals (Furr & Dyer, 2014).

3.7.3.2 Skills & Competencies

Who could carry out specific activities?

To curry out business model innovation, firms do not only need competent executives, but also innovative teams and talent (Laurie & Harreld, 2013; Martin, 2014). Internal competencies are essential for executing new business models and monitoring their change process (Chesbrough, 2010). To effectively respond to external threats, firms are pressured to keep these capabilities and competencies innovative (Blank, 2013). Competent executives involved in business model innovation are continuously upgrading competencies and skills of their staff, and focusing on long term vision by developing new competencies instead of just leveraging the current ones (Govindarajan & Trimble, 2011; Bock et al., 2012).

3.7.3.3 Incentives

Who should we reward?

Like other types of innovation, business model innovation comes with a cost. The absence of incentives (Cliffe, 2011) can be detrimental to business model innovation because employees may see no benefits in being engaged in such activities. An incentive policy can motivate employees to carry out tasks successfully (Sorescu et al., 2011) and encourage them to increase efforts and performance (Casadesus-Masanell & Ricart, 2010). As the dominant source of value-generating ideas, managers exploit ideas driven by innovation through remunerations (Baumann & Stieglitz, 2014). Incumbents ignoring opportunities do not re-invent business models due to their internal rules that lack incentives and hinder the mechanisms of discovery and renewal (McGrath, 2010).

3.7.3.4 Training

Who needs development to carry out specific activities?

Business model innovation requires improving employee's skills and competencies (Storbacka, 2011), and engaging staff in team work that focuses on the spread of innovation (Furr & Dyer, 2014). This can be achieved through training courses delivered periodically (Storbacka, 2011). Firms may need to develop training programmes that focus on innovation culture and facilitate business model innovation. Having a control system with unified measures for learning and evaluation (Simons, 2014) will help identify who needs development to carry out business model innovation.

Table 3.16 Studies of Human Capital

Author(s)	Component(s)	Sub-component(s) / Question(s)
Demil & Lecocq (2010)	• The resources and competences	• Competences
Zott & Amit (2010)	• Activity system governance	• Who
Casadesus-Masanell & Ricart (2010)	• The concrete choices how the organization must operate	• Governance
Eyring et al. (2011)	• key resources • key processes	• People • HR
Sorescu et al. (2011)	• Governance	• Actors and mechanism • incentive systems
Amit & Zott (2012)	• Business model governance innovation	• Who should perform the activities? • What novel governance arrangements can be found?
Kiron et al., (2013a)	• Operating model	• Organizational change • How do we deploy and develop our people to sustain and enhance our competitive advantage?
Morris et al. (2013)	• Operating Model	• Core internal competencies
Girotra & Netessine (2014)	•	• Appoint a better-informed decision maker
Sinkovics et al. (2014)	• Core competency	
Simons (2014)	•	• Building an interactive control process to monitor the assumptions that underlie your choice • Using the same performance measures as the basis for learning and debate
Taran et al. (2015)	• Core competences	
Wirtz et al. (2016)		• Core competences and competences

Source: Developed by (the author)

3.7.4 FINANCIAL VALUE

Financial value refers to value capture mechanisms that could be altered to change existing business models or develop new ones. Understanding the financial activities is so critical to business model innovation because changes in business models will affect business performance (Sorescu et al., 2011), margins and/or costs (Demil & Lecocq, 2010; Sosna et al., 2010). Michel (2014) suggests that alternative business models can be explored through five ways: changing the price-setting mechanism, changing the payer, changing the price carrier, changing the timing and changing the segment. Business model innovation can also be achieved through exploring new ways to generate cash flows (Sorescu et al., 2011), where the organisation has to consider (and potentially change) when the money is collected: prior to the sale, at the point of sale, or after the sale (Baden-Fuller & Haefliger, 2013). From our review of the literature, the questions that need to be addressed for this component are "*How*" questions. Four activities have been found to be associated with financial value namely revenue streams, cost structure, cash-flow, and margins. Each of these activities will be outlined below.

3.7.4.1 Revenue Streams

How do we generate revenue?

Firms capture value thorough revenue streams, which are critical to firms' survival (DaSilva & Trkman, 2014). In changing their business models, firms are required to choose their revenue mechanism on the basis of their value proposition rather than the associated costs (Storbacka, 2011). Unlike other types of innovations, which could be created externally and borrowed by the firm, developing a monetizing model to capture value is unavoidable and the essence of business model innovation (King & Lakhani, 2013). Firms should decide internally on how to capture the value for itself regardless of how the value was created (Sosna et al., 2010; Santos, 2012).

3.7.4.2 Cost Structure

How do we cost our products / services?

Moving to digital distribution channels, where transaction costs are almost zero, is putting many organizations under pressure to rethink their cost structure (DaSilva & Trkman, 2014; Iansiti & Lakhani, 2014; Kumar, 2014). Further, many firms are under pressure to reduce costs while maintaining the same quality (Govindarajan & Ramamurti, 2013). Cost-driven business model innovation in emerging economies is challenging firms' existing business models (Williamson, 2010). To innovate their business models, firms are rethinking costs associated with specific organization activities (Demil & Lecocq, 2010). In developing sustainable business models, Kiron et al, (2013c) highlights the need to reconsider cost structure relating to value chain activities.

3.7.4.3 Cash-flow

How should we manage cash-flow?

If the economic value is not reflected in the form of cash-flow, firms may threaten value capture. Cash-flow represents a critical issue in many organizations especially SMEs and financial institutions. Being able to determine how and when firms receive inflow cash (Cliffe, 2011) would help firms develop effective revenue models. Successful business model innovation leads to generating favorable and surplus cash flow that enables firms to secure more resources which are critical for their survival and prosperity (Lusch et al., 2010).

3.7.4.4 Margins

How much surplus can we make?

Firms are forced to rethink their business models because of the shrinking profit margins in many industries (Sorescu et al., 2011). Also, firms need to be aware of the movement of their margins in order to sustain their business models (Velu & Stiles, 2013). Determining how much surplus an organization is able to make would help strengthen the value capture mechanisms. Moreover, firms innovating their business models need to understand why competitors are achieving higher profit margins (Weill & Woerner, 2013). The average profit margins in any industry reflect a reasonable point to measure the target profit at least in the short run. The extent of innovation in business models will be determined by the level of targeted margins.

Table 3.17 Studies of Financial Value

Author(s)	Component(s)	Sub-component(s) / Question(s)
Al-Debei & Avison (2010)	• Value Finance	
Xiaobo et al. (2010)	• Profit Formula	• Revenue Model • Cost Structure
Yunus et al. (2010)	• Economic Profit Equation	• Sales revenues • Cost structure • Capital employed
Casadesus-Masanell & Ricart (2010)	• The concrete choices how the organization must operate	• Polices
Eyring et al. (2011)	• Profit formula • The customer value proposition	• Cost structure • Revenue model • Target unit margin • Resource velocity • Pricing • Payment scheme
Storbacka (2011)	• Sell solution	
Rajala et al. (2012)	• The revenue model	
Sinfield et al. (2012)		• How will our business earn a profit?
Baden-Fuller & Haefliger (2013)	• Monetization (Value capture)	
Kiron et al. (2013a)		• Revenue model

		• How are we compensated for our offering? • Cost model • How do we configure our assets to deliver on our value proposition profitably?
Huarng (2013)	• Financial model	• Cost • Revenue • Profit
Morris et al. (2013)	• Economic model	• Revenue drivers & pricing approach • Volumes and margins
Cao (2014)	• Consequences represented by the profit formula	
Dmitriev et al. (2014)	• Revenue model • Cost structure • Estimation of profit potential.	
Girotra & Netessine (2014)		• Change the revenue stream • Integrate the incentives
Sinkovics et al. (2014)	• Cost structure • Revenue model	
Tongur & Engwall (2014)	• Value capture	• How the company retains the value it has created for its customers?
Taran et al. (2015)	• Profit formula	• Revenue model • Cost structure • Margin model • Resource velocity
Wirtz et al. (2016)		• Revenue streams • Revenue differentiation • Financial value • Capital model • Cost structure model

Source: Developed by (the author)

3.8 CONCLUSION

From reviewing the business model innovation literature, researchers fail to gather consensus on what is meant by the 'business model' concept and how it differs from business strategy. This did not deter the researcher from reviewing literature on how firms explore new ways to define value proposition, create and capture value for customers, suppliers, and partners. Although enriching, studying business model innovation using different perspectives, theories and concepts has led to further confusion and fragmentation of the literature. Moreover, the literature outlined several approaches to business model innovation including changing one activity, altering multiple activities simultaneously, and changing the interactions between activities.

Further, business model experimentation techniques have been advocated as ways to explore alternatives including mapping approach, discovery-driven planning, and trial-and-error learning. From reviewing the literature, drivers forcing firms to carry out business model innovation were categorized into three levels: economy, industry and firm.

Economy-level drivers includes: regulation, external stakeholders, crisis and economic changes, and global competition. Industry-level drivers include: substitutes, imitation, technologies and innovations, rivalry, industry demand, and service providers / suppliers. Firm-level drivers include: client, culture and top management. As a result of this chapter, a framework of business model innovation was developed consisting of: four components (namely value proposition, operational value, human capital, and financial value), and sixteen activities including core offering, customer needs, target customers, perceived customer value, key assets, key processes, partners network, distribution channels, organisational learning, skills and competencies, incentives, training, revenue streams, cost structure, cash-flow, and margins. This framework integrates all the activities where alternative business models can be explored. It will be interesting to test the applicability of this framework for Saudi investment banks' multiple business models. Before doing this, the next chapter will describe the research design and strategy used to collect and analyse the data.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION

This chapter will outline the research philosophy, paradigm, approaches, strategy, and data analysis. Further, it will clarify the research design, data collection tools, sampling techniques, interview questions, secondary data and ethical considerations. Data analysis techniques, coding and software used will be discussed at the end of this chapter.

4.2 RESEARCH PHILOSOPHY

To determine the purpose of the study and how it will be studied, researchers need to clarify their philosophical assumptions. These assumptions are referred to as paradigms, epistemologies and ontologies (Creswell, 2015). When seeking to select a paradigm, researchers need to determine the philosophical basis relating to knowledge development and its overall nature (Saunders et al., 2016). In order to provide a position regarding knowing and thinking, researchers need to describe their epistemological and ontological stands (Bryman & Bell 2011; Saunders et al., 2016). Epistemology refers to "*a way of understanding and explaining how we know what we know*" (Crotty, 1998, p.3). It focuses on the examination of what may differentiate justified belief from opinion (Jonker & Pennink, 2010). Further, Bryman (2012) argues that epistemology is centred on what is regarded as acceptable knowledge in a specific discipline and provides a working setting for the researcher, which facilitates establishing the potential nature in knowledge and does so in suitable and genuine ways, notably through acknowledging possibilities, common basis and scope. Ontology relates to "*a theory of social entities and is concerned with what there exists to be investigated*" (Walliman, 2006, pp. 15). It focuses on providing an answer to the question of 'What is' and places emphasis on the social phenomena's nature as entities (Crotty, 1998).

4.3 RESEARCH PARADIGM

For any study, it is fundamental that the research paradigm implemented is identified, irrespective of the research field's aims or study's objectives. Essentially, a paradigm reflects on the logical sequences providing the link between the study's initial questions and the empirical data, and ultimately to the conclusions drawn (Orlikowski & Baroudi, 1991). A research paradigm provides a critical aspect of a research method, facilitating the gathering of data in a suitable and effective way (Creswell, 2015). It is a perspective adopted in line with the shared assumptions, concepts, practices and values (Johnson & Christensen, 2014). Otherwise stated, a paradigm may be explained as a function of how the researcher envisages knowledge development.

In social research, various theoretical paradigms exist, which may be defined as a group of shared ways of thinking or assumptions relating to different world aspects (Oates, 2006, p. 282). In the business and management domain, there are three critical paradigms, namely positivist, interpretive and critical (Myers, 1997). Each paradigm will be outline as follows:

Positivist: the aim of this paradigm is to establish the links or underpinning patterns across the social field. Accordingly, it implements scientific approaches in order to predict, define and govern phenomena. In the view of Neuman (2014), positivism considers social discipline as an organised approach that brings together deductive logic and more specific empirical observations of specific actions, in an effort to identify and validate a number of probabilistic casual bylaws that may be directed towards estimating patterns inherent in human activities. Social reality for positivists has a nature where empirical facts exist independently from researchers' ideas or thoughts; they are controlled by laws of cause and effects, with social reality patterns seen to be consistent and reliable (Crotty, 1998; Neuman, 2014). Thus, this research paradigm is chosen to provide a quantitative explanation as to how variables interrelate, influence phenomena and cause specific consequences. It is common for hypotheses to be devised and for these to undergo testing through the completion of experimental studies. This is done with the aim of analysing facts independently and objectively providing explanations (Bryman, 2012).

One of the most basic assumptions inherent in this paradigm, as recognised by Neuman (2014), is that the goal of science is focused on developing the methods in which the researcher remains objective, neutral and detached, providing a position to facilitate the closest approximation of reality that exists empirically. Various principles underpinning positivism have been identified by Playle (1995); first, this paradigm holds the view that facts exist before being established. Second, it adopts the stance that objectivity can only be achieved with significant dedication to particular methodological principles. Third, 'Empiricism' is defined on direct developed knowledge centred on facts-testing and observation. Fourth, complex social concepts can be reduced into logically quantified laws.

Interpretive: In contrast to the aforementioned paradigm, the interpretive paradigm outlines our knowledge in a specific domain. Accordingly, this particular paradigm does not provide any distinction between the researcher and the observed phenomena, meaning that there is the opportunity to complete a subjective investigation into the researcher's own perspective whilst also garnering knowledge and building factors (Walsham, 2006). Gephart (2004) argues that interpretivists make the assumption that knowledge and meaning are acts of interpretation. Thus, there is no objective knowledge that is independent of reasoning, thinking and human beings. Myers (2013) further suggests that the premise of interpretive research is access to reality being attained through various social constructions including consciousness, shared meanings, and language. A researcher completing an interpretive study aims to consider the world through the eyes of those being examined to gain understanding from many different perspectives rather than a perspective in isolation, i.e. positivism (Greener,2008).

Several assumptions underpin this paradigm (Merriam, 1988). First, researchers are most concerned with meaning relating to how people consider their lives, their experiences and their structures. Essentially, reality may be recognised as subjective, context-driven and multi-faceted. Second, ecological assumptions highlight that the primary data collection and analysis tool is the interpretive qualitative researcher, whereby the human instrument is the mediator of the data as opposed to machines, inventories or questionnaires. Third, interpretative qualitative research involves fieldwork, during which the researcher is involved with issues under examination. Fourth, interpretive qualitative researchers adopt the role of analysing the data as opposed to focusing on hypotheses-related outcomes. Fifth, interpretive qualitative research is considered as inductive in nature where researchers bring together and develop understanding through examining details, abstractions, concepts, hypotheses and theories.

Critical: critical research is subjective in nature and commonly carried out with emotional and ideological bias (Willis et al., 2007). Critical researchers look at requirements that are not currently met by present systems and help implement the findings of their research to meet these requirements (Kilgore, 1998). Moreover, critical research looks at what seems misplaced as opposed to what is correct in the world (Walsham, 2006; Myers, 2013). Because knowledge cannot be viewed as a distinct element (Orlikowski & Baroudi, 1991), critical researchers are encouraged to ensure balance between the wants and needs of people in the study, whilst also being aware of the influences of culture, politics and sociality (Myers, 2013).

4.3.1 USING INTERPRETIVE RESEARCH PARADIGM

In order to provide an understanding of business model innovation, this research will be 'exploratory' seeking to develop concepts with regard to changing business models. Thus, this study will use the interpretive paradigm as a vehicle to explore the complexities of business model innovation. Schneider and Spieth (2013) advocate interpretive research as a powerful tool in this field to strengthen both practical and theoretical domains. Their review of business model innovation revealed studies in specific markets, structural contexts and/or industries. They highlighted the need to continue investigating business model innovation in other contexts. Considering the present work's aims, the interpretative paradigm is adopted in an effort to investigate the phenomenon and provide an in-depth understanding of how investment banks carry out business model innovation. This paradigm will assist in achieving an effective exploration of this subject area and in providing an understanding of the associated activities and drivers forcing investment banks to change their existing business models. Employing this paradigm will help enrich our understanding of the phenomenon without separating the researcher from the subject under investigation. This means the researcher can closely interact with the executives and top management through meeting the participants in person, listening to their thoughts, and discussing their opinions. This leads to providing an understanding of business model innovation through reflections on participants' viewpoints and their reasons to carry out business model innovation in a particular way.

4.4 RESEARCH APPROACH

According to Saunders et al. (2016), doing scientific research involves the usage of theory. Clarity about theory's involvement, in terms of testing the theory or developing one, is crucial when designing research projects and choosing appropriate strategies. In this respect, Creswell (2014) identified three different types of research approaches namely deductive reasoning, inductive reasoning and mixed methods. Each will be discussed below.

4.4.1 DEDUCTIVE REASONING (THEORY-TESTING)

Babbie (2015) discusses that deductive reasoning, or deduction, shifts attention from specific to the general, and from a number of particular observations to the identification of a pattern symbolising the extent of order amongst all given events and identification here does not necessarily provide understanding as to why the pattern exists but rather just confirms its presence. Further, he argues when applying this reasoning, research is carried out with the aim of testing theories and analysing different relationships between variables, beginning with more generalised statements and then predicting particular observations which are at the heart of scientific research. Using statistical techniques, data collected can be examined and studies in this category are referred to as 'Quantitative Research' (Jonker & Pennink, 2010). Figure 4.1 illustrates the cycle of the deductive approach.

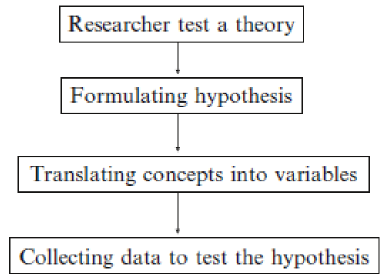

Figure 4.1 Empirical Cycle: Deductive

Source: Adopted from (Jonker & Pennink,2010, p.67)

4.4.2 INDUCTIVE REASONING (THEORY-BUILDING)

This research approach progresses from the general through to being more particular. It spans from a pattern that could be theoretically or logically expected, through to observations that test whether the expected pattern is then seen to arise. Unlike deductive reasoning, which begins by questioning 'why' before progressing on to 'whether', induction goes from 'whether' and moves onto questioning 'why' (Babbie, 2015).

This approach mainly aims to provide a better understanding and explanations of problems or phenomena for social problems through investigating the meaning behind concepts or behaviours of individuals and/or groups (Babbie, 2015). Thus, in the inductive approach, theories are developed from the analysis of research data to reason from specific observations to general patterns (Babbie, 2015). Studies using this approach are known as 'Qualitative Research' (Jonker & Pennink, 2010). Figure 4.2 demonstrates the cycle of the inductive approach.

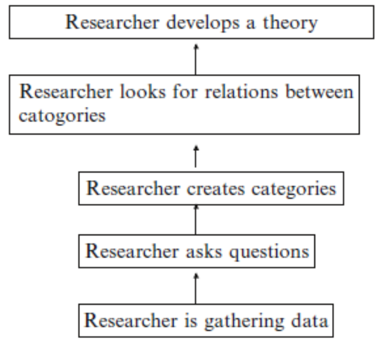

Figure 4.2 Empirical Cycle: Inductive

Source: Adopted from (Jonker & Pennink,2010, p.78)

4.4.3 MIXED METHOD

Including characteristics of both earlier mentioned approaches are referred to as mixed methods. By using both approaches of reasoning, research outcomes are highly regarded because of bringing together the strengths of both approaches. Creswell and Clark (2007) agree that "*the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone*" (p. 5). However, using both methods could also lead to accumulating the limitations of both approaches.

4.4.4 USING QUALITATIVE APPROACH

In order understand how firms carry out business model innovation, this study uses the qualitative approach for two main reasons. First, this study aims to investigate a new area of research that has not yet been satisfactorily explored to date. Thus, the qualitative approach is seen as the most appropriate method to explore and discover any phenomenon where very little is known (Jonker & Pennink, 2010). Also, it is not easy to employ quantitative techniques as concepts and constructs have not yet been fully developed. Second, the qualitative research approach enables us to study the context of firms changing their business models and how senior executives deal with such changes. Qualitative research supports studying social contexts in the real life of business, and is particularly useful in conducting research within organisations (Jonker & Pennink, 2010). Moreover, it allows us to capture senior executives' thoughts and attitudes to carrying out business model changes. Using qualitative research allows the participants to freely tell their expertise, events, factors, stories and feelings to support contrasting and comparing between the various viewpoints of the participants (Myers, 2013). This point seems crucial, as this research involves different groups of people who have different roles in different business lines (i.e. assets management, brokerage, investment banking, and custody services).

4.4.5 CONFIRMABILITY, CREDIBILITY, DEPENDABILITY AND TRANSFERABILITY

Quantitative research quality is commonly assessed through validity, reliability, and generalizability. However, qualitative researchers treat these criteria with scepticism (Auerbach & Silverstein, 2003), and are using different criteria to assess the quality of their research including confirmability, credibility, dependability, and transferability (Guba, 1981). Table 4.1 highlights the different standards for judging qualitative and quantitative research.

Table 4.1 Criteria for Assessing Research

Criteria for Assessing Quantitative Research	Criteria for Assessing Qualitative Research
Internal Validity	Credibility
External Validity	Transferability
Generalizability	
Reliability	Dependability
Objectivity	Confirmability

Source: Adopted from (Guba, 1981)

To assess qualitative research, Guba (1981) suggests using the following four criteria:

- **Credibility**: refers to establishing that the findings and interpretations are believable by testing the data with participants.
- **Transferability**: refers to the degree to which the findings can be transferred to other contexts. Findings could be used in other similar contexts as long as there is a degree of "fit" between them.

- **Dependability**: refers to tracking the changes in the research context and explaining how researcher approached the data collection in response to these changes.
- **Confirmability**: refers to the degree to which the findings could be confirmed by others.

Table 4.2 summarises the actions taken by the researcher to ensure all of the above criteria are met.

Table 4.2 Assessing the Quality of this Research

Criteria	Provisions
Credibility	• Spent 18 months collecting and analysing the data • Primary data collected through semi-structured interviews was verified with the available secondary data (annual reports, financial statements, websites, prospectus) • A summary of the key interpretations were emailed to the participants after the interview for feedback. Participants confirmed that these reflected possible interpretations of their worlds.
Transferability	• Purposeful sampling was utilized to collect the data from various top management positions where participants included chairman, executive, head of business line and head of department … etc.
Dependability	• Participants reflect on their experiences covering events that occurred up to 3 years prior to the interviews as well as recent events.
Confirmability	• Providing over (515) pages of transcripts (accounting for 206,259 words) to the supervisor to expand and refine the interpretations. • Two independent researchers audited the findings and compared the interpretations. As a result, this procedure further refined our interpretations.

Source: Developed by (the author)

4.5 RESEARCH STRATEGY

Selecting a research strategy depends on the nature of the investigated phenomena, the relationship between theories and scientific research, the philosophical point of view and its adopted assumptions (i.e. Epistemological or Ontological), and researchers' beliefs and expertise (Brannick & Roche, 1997). There are various research strategies that could be adopted in business and management research including survey, action research, ethnography, grounded theory, and case study. This section will briefly discuss each section then discusses why case studies were chosen as the research strategy for this study.

Survey: The strategy is usually used in research that the unit of analysis is Individuals in order to describe and observe social phenomena among a large size of population. It is required to choose a representative sample of population under study. In addition, questions are standardized. The survey approach can be utilized in exploratory, descriptive or explanatory studied (Babbie, 2015). The data may be collected through questionnaire, structured observations or structured interviews. In latter, the same queries are questioned for all participants. Questions in survey are limited if the rationality of participants response is Unreliable (Saunders et al., 2016).

Action Research: the aim of action research is to find a solution for an urgent problem faced by an organisation or society (Kothari, 2004). Gilmore et al. (1986) argues that action research:

> *"Aims to contribute both to the practical concerns of people in an immediate problematic situation and to further the goals of social science simultaneously. Thus, there is a dual commitment in action research to study a system and concurrently to collaborate with members of the system in changing it in what is together regarded as a desirable direction. Accomplishing this twin goal requires the active collaboration of researcher and client, and thus it stresses the importance of co-learning as a primary aspect of the research process." (p. 161)*

Overall, this research strategy's goal is to overcome organisational issues including change implications. However, involving practitioners in the research and/or establishing collaborations between researchers and practitioners/ consultants may influence the objectivity of the findings.

Ethnography: Saunders et al. (2016) expound that this approach has the goal of explaining the social reality in which the study population live in the same way they themselves would describe it. Additionally, using this research strategy, the phenomenon is examined and researched within the context it occurs and does not utilise data collection methods that would remove the complexity of daily life. Originally, Ethnography was used to find out the roles and structure to behavioural patterns of a research sample, through investigating humanistic culture and society, and by emphasising their attitude, beliefs, and values. Usually, the researcher is directly involved in the organisation's daily life, in order to observe and interview the organisation's members, and to figure out what motivates them (Creswell, 2012).

Grounded theory: the gathering of data using this strategy is initiated without devising an initial theoretical framework. Theory is devised through the data generated from observations. Such data results in predictions, which then undergo testing through the completion of subsequent observations that could either validate or disregard the predictions (Saunders et al., 2016). This strategy has an interpretive nature as it drives meaning from the collected qualitative data (Birks & Mills, 2015). Moreover, it seeks to garner fresh, newer insights into patterned links between social actors, their relations and interactions, which are considered valuable for theorising but are not necessarily appropriate when considering confirmation (Glaser & Strauss, 1967).

Case Study: Case studies are the most widely chosen approach when the researcher acknowledges a lack of control over the phenomena, and when emphasis is placed on a contemporary phenomenon within a real-life context. According to Yin (2009), a case study may be defined as an empirical inquiry that seeks to determine a contemporary phenomenon in a real-life context, mainly when the boundaries between context and phenomenon are not clear. He differentiates four case study methods depending on single vs multiple cases; and holistic cases vs embedded cases. A single case is commonly implemented where there is an extreme or a unique case, or otherwise when a case is critical. Multiple cases are conducted when there is a need to determine whether the findings of the first case occur in other cases (Saunders et al., 2016). Through the holistic lens, a case could be conducted on an organisation as a whole. When the study is centred on an organisation as a whole, the organisation is then considered through a holistic lens. However, if a single organisation is under examination but a research aims to analyse various logical sub-units across an entity, such as departments or divisions for example, the case will ultimately require more than one unit of analysis, thus warranting the use of embedded case studies (Saunders et al., 2016).

Moreover, in-depth analysis is carried out in an effort to derive a rich explanation of the case and the phenomena under examination. The case study warrants a wealth of information, with conclusions drawn in line with a much more in-depth and comprehensive set of data (Marczyk et al, 2005). However, there is a need for investigators to exercise caution when designing and completing case studies in order to ensure the most commonplace criticisms of the method are dealt with (Yin, 2009).

4.5.1 USING IN-DEPTH CASE STUDIES

This study uses ‘multiple embedded case studies’ as a research strategy for several reasons. First, case studies are used as research strategies to answer the ‘what’ questions and exploring new areas of research (Yin, 2009). This research is an exploratory study that intends to identify components, activities and drivers associated with business model innovation. As the topic of this research is still under development, exploratory case studies can be used to answer this study’s research questions. Embedded case studies are useful in studying multiple divisions and departments (Myers, 2013). In this study, business model innovation is explored in investment banks, where multiple business lines operate including brokerage, asset management and investment banking and custody services. Each business line has core activities that could vary from other business line. In addition, different drivers may force investment banks to change different business lines. Thus, using embedded case studies will help us understand each business line within an investment bank.

4.6 RESEARCH DESIGN

Research design relates to the proposed techniques and procedures for gathering data. Yin (2009) suggests that research design is:

> *“A logical plan for getting from here to there, where here may be defined as the initial set of questions to be answered, and there is some set of conclusions (answers) about these questions. Between "here" and "there" may be found a number of major steps, including the collection and analysis of relevant data.” (p.26)*

This section will outline how data was collected.

4.6.1 DATA COLLECTION TOOLS

Observation, focus group and interviews are tools used to collect qualitative data. Each will be discussed as follows:

Observation: is one of the oldest data collection tools (Cauvery et al, 2003). It has been described as "*a methodologically systematized and applied in qualitative research … Practically all the senses—seeing, hearing, feeling, and smelling—are integrated into observation*" (Flick, 2009, p. 222). At its core, observation entails systematic analysis, description, explanation and observation of people's activities (Saunders et al., 2016). As identified and explained by Bryman and Bell (2011), four approaches can be used including structured, participant, non-participant and unstructured observation. Structured observation is commonly referred to as systematic observation, and is an approach where the researcher implements explicitly formulated rules through an 'observation schedule' to facilitate observations and subsequent recordings of behaviour. While participant(s) observation involves interaction with the study group aiming to observe members' behaviours and to collect insights into the meanings assigned to the behaviours and the surrounding environment, non-participant observation is used to explain situation without taking part. An unstructured observation; it objects to gain in details as possible the behaviour of participants, with the aim of developing a narrative description of that behaviour.

Focus Group: Bryman and Bell (2011) defines this tool as *"a form of group interview in which there are several participants (in addition to the moderator/facilitator); there is an emphasis in questioning on a particular fairly tightly defined topic; and the accent is upon interaction within the group and the joint construction of meaning*" (p. 503). It aids the interviewer to question a number of different individuals simultaneously and methodically (Babbie, 2015). Such a method might be adopted in order to present information about a particular field as a pre-research method to circumvent making mistakes (Sarantakos, 2013).

Interviews: are one of the most commonly linked tools to qualitative studies, referring to them as 'qualitative interviewing' (Bryman & Bell, 2011), and one of the tools to collect rich data concerning the experience and viewpoints on a specific topic as held by a particular population (Turner, 2010). An interview method is adopted with the aim of gathering primary data across all research fields. They are typically categorised into structured, unstructured and semi-structured interviews (Myers, 2013).

Unstructured interviewing is likely to be comparable to a conversation (Burgess, 1984). In an effort to establish new perceptions and determine what has arisen, this particular interview type is applied in exploratory studies. This is an informal approach where researchers have no pre-set questions (Saunders et al., 2016). The questions tend to be more informal in nature, with their sequencing varying from one interview to the next (Bryman & Bell, 2011). Interviewees are better positioned to explain their views on a concept, event or subject (Saunders et al., 2016).

A structured interview, however, involves an interview diary being administrated by the interviewer. The objective in this approach is for all interviewees to be provided with the same questions. The researcher poses identified questions so as to not affect the answers given by participants, thereby avoiding bias in research (Bryman & Bell, 2011). This particular method is considered valuable in descriptive works as it acknowledges general trends and makes use of statistical approaches that are valuable in explanatory research. Additionally, carrying out such interviews requires posing closed questions, with interviewees choosing from a number of predefined answers similar to ticking boxes on a questionnaire (Saunders et al., 2016). It adopts a structured framework owing to the fact that the researcher has a number of clearly outlined questions to be examined (Bryman & Bell, 2011).

When carrying out semi-structured interviews, the questions are predefined and then put into an interview schedule. However, the progress of the interview affects the questions and how they might vary. Additionally, questions that are not detailed in the guide might also be put to the interviewee should they have led the interviewer onto a specific topic. The interviewer usually has the opportunity to ask additional questions to probe significant replies. In the main, however, the questions will have a very similar wording and will be asked across all interviewees (Bryman & Bell, 2011). This approach to interviewing is valuable in the case of exploratory and new areas of research (Saunders et al., 2016).

4.6.2 USING SEMI-STRUCTURED INTERVIEWING

According to Bryman (2012), for qualitative purposes, semi-structure interviewing is a more flexible and less structured tool where new questions may be introduced, depending on the interviewees' replies. This tool has been chosen to collect data from senior executives of major investments banks for several reasons.

First, exploring how investment banks change their business models has an interpretive nature. This tool can help in exploring individuals' rationales and their reasoning (Myers, 2013). As this research aims to investigate a contemporary issue, semi-structured interviews offer the required means to define, explain and clarify the topic and its importance to the interviewees, in order to get the required understanding and motivate them to interact effectively. In addition, using semi-structured interviewing tool aids the researcher to reach out to participants' viewpoints and perceptions. Because this study begins with a clear focus as opposed to a more generalised idea, the interviews need to be semi-structured so that a more focus is given to the phenomenon under investigation (Bryman & Bell, 2011). Emphasis was given to particular areas such as activities and drivers to ensure executive participation.

Second, due to the high competitiveness amongst Saudi investment banks, executives may withhold information and would be reluctant to reveal their strategies. Semi structured interviews do not only allow researchers to maintain the balance between the very formal and informal conversation approach (Myers, 2013), but also allow the modification of questions to gain further insights.

Third, semi-structured interviews allow the interviewee to lead the discussion, to a large degree, into areas that the researcher had not previously considered but which provide valuable insight into the topic being investigated (Saunders et al., 2016). Thus, this tool was used to grant senior executives maximum freedom to explain their views on business models, their understanding of the innovation and changes in activities associated with drivers of such change. Finally, and taking Muna's (1980) suggestion "… *there is a strong preference within an Arab culture for business transactions of all kinds to be based on personal contact*"(p. 32), face-to-face semi structure interviews were used to establish the personal contact required in this context to help elicit and collect the data for this study.

4.6.3 DATA COLLECTION PLAN

4.6.3.1 Sampling Techniques

When conducting qualitative research in the business and management domain, randomly selecting and studying a sample may not be the most efficient plan due to the time and efforts invested in potential participants that may not be responsive or engaging with such research (Saunders et al., 2016). Non-probability sampling, when groups in a population tend to be more likely chosen than others (Bryman & Bell, 2011), may provide alternative techniques for choosing samples. These techniques include purposive, snowball, convenience, self-selection and quota sampling (Saunders et al., 2016).

Purposive sampling: this technique is used in research when choosing participants at random defeats the whole purpose of research that is relevant to as specific group of participants, and where the researcher has a clear idea of the research focus (Bryman & Bell, 2011).

Convenience sampling: this technique is commonly used more in short-term studies or otherwise in pilot research (Greener, 2008). Researchers choose this technique when they cannot approach everyone in the identified sample, and choose to make contact on a by-chance basis (Bryman & Bell, 2011) as the only ways to collect the required data.

Snowball sampling: this technique is used by researchers to increase the number of participants when they are only able to identify a group from the sample population. Contact within this group will facilitate contacting other potential participants within the targeted population sample (Bryman & Bell, 2011). Here, it is difficult for researcher to predetermine the target group (Greener, 2008).

Quota sampling: This technique is widely used in the field of market research (Bryman & Bell, 2011). This technique is used by researchers to create a sample population with the relative proportions of individuals in various groups using criteria such as age, origin, gender and/or place of residence.

Self-selecting sampling*:* this technique is used by researchers when there is a need for volunteers. Researchers spread the word through channels used by the targeted sample to encouraged and get them involved in a study (Saunders et al., 2016).

4.6.3.2 Using Purposive Sampling

To determine the sample used for this study, purposive sampling was chosen as a technique for two main reasons. First, this technique allows entities and employees to be chosen because they have the insights needed to study a social phenomenon (Bryman & Bell, 2011). Thus, purposive sampling was used because it allows the researcher to identify the relevant cases to explore how investment banks carry out business model innovation. Second, such sampling technique is applied when working with a small number of participants and case studies (Greener, 2008) with the aim to choose cases that are informative (Neuman, 2014). As indicated in Chapter 2, there are 88 Authorised Persons (APs) in Saudi Arabia. In order to provide an understanding of business model innovation in this context, fully-licensed investment banks were chosen as this study's target population. Since a limited number of studies have examined firms operating multiple business models, targeting fully-licensed investment banks will provide the necessary platform to explore business model innovation in a multi-service sector. As of November 2015, there were 28 fully-licenced APs (CMA, 2015b). This will also enable the researcher to explore this topic in a homogeneous sample (Saunders et al., 2016), where members are seen to have similarities facilitating an in-depth exploration of the topic.

4.6.3.3 Interview Questions

As suggested by Bryman (2012), when conducting semi-structured interviews, the majority of questions focus on particular points; nonetheless, through applying this approach, the interviewer benefits from additional flexibility in terms of identifying new areas of interest that may not have been well studied. Such interviews are more agile structure-wise, and contain a number of different themes to be considered throughout the interviews. When interviews are semi-structured, a number of questions will be posed, although these might differ from one interview to the next. This means that additional questions might not be asked and some questions may not be asked in some interviews but required in others.

The aim was to ensure flexibility on the sequence of questions asked and how particular areas were developed and followed up according to each interviewee. Therefore, in the interview guide, a set of closed questions were included to elicit precise information, and open ended questions were used to allow further expression of thoughts, perceptions, experiences, understandings, interpretations and interactions. The interview questions used in this study can be found in Appendix (1). These were divided into a number of sections. The introductory section covered investment banks goals and strategy, followed by a set of questions focusing on business model components including value proposition, operational value, human capital and financial value, and the associated activities within each component. Another section included questions on business model changes and the drivers forcing such changes.

It is worth noting that the firms' background, their products and services, and financial results were not discussed at the interview for many reasons. First, all targeted sample annual reports and financial statements are annually published with all necessary details. Secondly, investment banks websites are generally well-developed where more information could be retrieved. Finally, because of time restrictions, the interview time was dedicated to questions that can only be answered by senior executives.

Before piloting the interview questions, a senior executive with 25 years' experience was approached to review the questions, the technique used, and documents used to approach investment banks to participate in this study. His feedback was vital as changes were made at an early stage of the study by improving and rephrasing some questions and removing any ambiguous and duplicated content. Having conducted the pilot study with one senior executive at a Saudi investment bank, the researcher noticed confusing business models with corporate strategy. As a result, the interview questions were subject to another round of assessment and were re-written in a more open-ended style. To minimise the confusion between the two concepts, both terms were defined and discussed at the beginning before delving into the topic's specific questions. It is common for qualitative data collection to be progressive as the subsequent interviews would be improved compared to the last interview since the interviewer gains additional skills, experience and becomes more comfortable regardless of carrying out complete pilot studies (Holloway, 1997).

4.6.3.4 Study Participants

Ten fully licenced investment banks were involved in this study representing 35.7% of fully-licenced APs and 11.4% of all APs (Authorized Persons) in Saudi Arabia as of November 2015. These investment banks deliver various services such as arranging and advising services (investment banking), dealing (brokerage and underwriting), managing (asset management including funds and discretionary portfolio management) and custody services. The following Table 4.3 provides a brief of this study's participants.

Table 4.3 Participating Investment Banks

Investment Bank	Ownership	Year	AUM (SAR) Million (2015)	Brokerage		Brokerage and underwriting (Dealing)	Assets management (Managing)	Investment banking (Arranging & Advising)	Custody
				Trading value (SAR) Million (2015)	Market share	• Brokerage (Agent) • Underwriter	• Investment Funds management • DPM		
A	Bank Affiliate AP	1976	4,100	538,928	12.55%	√	√	√	√
B	Local AP	2013	488	-	0.00%	√	√	√	√
C	Local AP	2006	2,000	54,515	1.27%	√	√	√	√
D	Regional AP	2007	2,500	7,302	0.17%	√	√	√	√
E	Regional AP	2009	827	7,898	0.18%	√	√	√	√
F	Bank Affiliate AP	2009	14,704	41,449	0.97%	√	√	√	√
G	Bank Affiliate AP	1977	5,152	212,919	4.96%	√	√	√	√
H	Bank Affiliate AP	1976	4,394	230,994	5.38%	√	√	√	√
I	Bank Affiliate AP	2004	11,750	55,494	1.29%	√	√	√	√
J	International AP	2007	-	6,922	0.16%	√	√	√	√

Source: Adopted from (CMA, 2015b; Investment Bank A, 2016; Investment Bank B, 2016; Investment Bank C, 2016; Investment Bank D, 2016; Investment Bank E, 2016; Investment Bank F, 2016; Investment Bank G, 2016; Investment Bank H, 2016; Investment Bank I, 2016; Investment Bank J, 2016)

Fully-licenced investment banks would provide a good context to study business model innovation. Delivering multi-services makes this context very interesting to study since investment banks could have more than one business model, and changing their business models may not be as straight forward as is the case of companies managing only one business model. Further, investment banks provide services and investment products through separate strategic units, which make each business line operates independently from other business lines. Moreover, drivers forcing investment banks to change their business models could have a different impact on different business lines. It will be interesting to explore which drivers are associated with which changes in business model(s) and what are the consequences of such changes.

Senior executives were approached informally through a network of contacts within the Saudi financial services sector. Once participants agreed to be involved in this study, they were emailed a research presentation included the informed consent form (a copy can be found in Appendix 2). After that, the researcher approached the executives/ senior managers again to schedule an available slot of 45 and 60 minutes in their busy diaries. Once confirmed, the semi-structured interviews were conducted inside investment banks in Riyadh and lasted for more than one hour in some instances because participants could trust the researcher and freely expressed their thoughts and experiences. The interviews were conducted in English since most of the participants preferred to use it. All executives were happy for the researcher to audio-record the interviews, which were subsequently transcribed, that is, reproduced as a written (word-processed) account of the actual words used by the participants (Saunders et al., 2016).

In the period from 18 June 2015 to 05 September 2015, 29 senior executives and managers from 10 investment banks were interviewed for this study. Participants in this study had key positions including: chairman's and board members (one), executives including chief executive officers (four), chief operating officers (three), chief financial officers (three), and head of asset management (six), head of brokerage (one), and head of investment banking (five), development, research and strategy managers (two), heads of sales and retail services (three) and human resources managers (one). Senior executives were targeted for this study because they tend to have an overall understanding of the business and are in a position to answer questions regarding the drivers forcing investment banks to change their business model components and activities. They also tend to have the necessary experience and qualifications for such positions; they all had bachelor degree, plus other postgraduate qualifications (PhD, MBA, MSc), and/or professional qualifications such as Certified Public Accountant (CPA), Certified Financial Analyst (CFA), Certified Management Accountant (CMA), Chartered Certified Accountants (ACCA) among others. The participants' profiles at LinkedIn website (www.linkedin.com) was utilized to gain insight into experiences and backgrounds.

Of the 29 executives, only one female was interviewed. This shows the predominance of male executives in the Saudi investment banks sector. The sample showed that the vast majority of the interviewees have a degree in business administration in the fields of management, finance, accounting and banking sciences. In addition, about 35% of interviewees have a Master's degree in business administration and finance. It should also be noted that the professional certificates showed popularity among the interviewees where 41% of them received professional certificates in accounting, investment, finance and sales. Table 4.4 provides further details about the participants in this study.

Table 4.4 Interviewed Senior Executives and Managers

No	Investment bank code	Interviewee code	Position	Qualification	Experience	Total time (Hours: Minutes: Seconds)
1	A	A1	Chairman	MBA, CPA	Over 25 years	0:46:22
2	B	B1	Chief Executive Officer	BSc Accounting, MBA, CPA, CMA, CIA, CFA(I)	Over 19 years	0:58:09
3	B	B2	Vice President of Asset Management	BSc Banking & Financial Science	Over 16 years	1:09:02
4	B	B3	Finance Director	BSc Accounting, CMA	Over 29 years	0:35:33
5	C	C1	Head of Asset Management	BSc Business	Over 19 years	0:40:05
6	C	C2	Managing Director of Private Investment Services & Retail Group	BSc Accounting, CPA, MBA	Over 18 years	0:35:18
7	C	C3	Managing Director of Investment Banking Group	BSc Commerce, MBA, Private Equity & Venture Capital	Over 20 years	0:43:45
8	C	C4	Chief Financial Officer	BSc Accounting	Over 14 years	0:44:04
9	C	C5	Head of Investment research & product structuring	BSc Finance, MSc Finance	Over 10 years	0:51:38
10	D	D1	Managing Director	BSc Accounting	Over 21 years	1:41:10
11	D	D2	Head of Asset Management	BSc Commerce, Private Equity Certification	Over 25 years	0:55:11
12	D	D3	Chief Financial Officer	BSc commerce, Finance & Accounting, CMA, CFM	Over 25 years	0:53:53
13	D	D4	Director of Human Resources	BSc Science in Mathematic	Over 10 years	0:39:44
14	E	E1	Chief Operating Officer	BSc Business Administration, Diploma Operation Banking &	Over 15 years	2:20:42
15	E	E2	Head of Brokerage	BSc Business Administration, Diploma in Sales	Over 18 years	1:26:35
16	F	F1	Chief Executive Officer	BSc Business, MSc economics, MSc Actuarial Sciences	Over 20 years	1:22:09
17	F	F2	Head of Asset Management	BSc Business Administration, Ph.D. in Islamic Economics	Over 30 years	0:48:54
18	F	F3	Head of Investment banking	BSc Finance & Accounting, MBA, CPA, CFA(II)	Over 14 years	1:11:41
19	G	G1	Head of Investment Banking	BSc Finance, MBA	Over 23 years	0:30:22
20	G	G2	Chief Investment Officer	BSc Finance, MSc Finance	Over 15 years	0:41:39
21	G	G3	Head of Structured Product's Sales Desk	BSc Information Technology	Over 12 years	1:02:33
22	H	H1	Chief Investment Officer	BSc Business Administration, Diploma in Financial Services	Over 19 years	1:02:51
23	H	H2	Group Head of Corporate Finance	BSc Finance, MSc Finance, CFA(I)	Over 13 years	0:59:46
24	H	H3	Head of Strategy	BSc Commerce, ACCA, CIA	Over 16 years	0:52:42
25	I	I1	Investment Banking Department Manager	BSc Industrial Management	Over 20 years	1:05:33
26	I	I2	Investment Operation Department Manager	BSc Business Administration	Over 19 years	0:56:00
27	I	I3	Sales and Marketing Department Manager	BSc Economics	Over 15 years	0:42:05
28	J	J1	Managing Director & Chief Executive Officer	BSc Engineering, MBA	Over 23 years	1:17:08
29	J	J2	Chief Operation Officer	BSc Law	Over 16 years	0:41:50

Source: Developed by (the author)

4.6.4 ETHICAL CONSIDERATIONS

According to Bryman and Bell (2011), there are many considerations that should be taken into account when conducting research in business and management. These include the harm caused to participants, a lack of informed consent to participate, an invasion of privacy, and deception (Diener & Crandall, 1978). The consideration of ethical issues and anonymity represents a crucial matter and mishandling these consideration can lead to critical unfortunate impacts (Tilley & Woodthorpe, 2011).

In order to ensure that these considerations are adhered to, the researcher put in place a few measures. An Information letter for the study signed by the Director of the Postgraduate Research (See Appendix 3) presenting the researcher and explaining the research aim and targeted interviewees was presented to key executives at investment banks in Saudi Arabia. This letter helps to build the researcher's credibility and senior executives' trust in this research. Once participants expressed their willingness to be involved in this study, they were emailed a formal research presentation including details such as what was likely to be asked during the interview, and informing them of the interviewee rights not to answer any question that he/she regarded as sensitive or not pertinent; these adhere to Saunders' et al. (2016) guidelines. The researcher further informed each participant of their right not to answer any question, or even to completely terminate their involvement before the interview. Participants were asked to submit an informed consent form was attached with the research presentation (see Appendix 2), or reply to the a research presentation email confirming their acceptance to participate and their awareness of being able to withdraw their involvement at any time and the informed consent form (Tilley & Woodthorpe, 2011).

Although senior executives permitted recording the interviews, confidentiality and anonymity of both investment banks and their executives were ensured. The anonymity of participants and their workplaces was ensured throughout this research. Pseudonyms were used to refer to the participants, in which these pseudonyms included a description of participants with numbers. Also, investment banks were referred to using random initials. To ensure the safety of interviews' records and transcripts, only one softcopy was produced, encrypted in a digital encrypted in a digital storage unit (i.e. USB memory-stick), and kept under lock and key.

The University of Exeter Ethics Policy and guidelines (University of Exeter, 2015) were adhered to during this research to ensure and avoid any practices that are seen ethically unacceptable.

4.6.5 SECONDARY DATA

Secondary data is "*data used for a research project that were originally collected for some other purpose*" (Saunders et al., 2016, p. 600). The data can be derived from a wide range of resources (Cowton, 1998). It can be used to improve our understanding of the issues and develop the foundation for drawing appraisals across the collected data (O'Gorman & Macintosh, 2015). To complement the collected primary data, investment banks reports and published data were used in this study. Government and regulatory bodies' reports were utilized as well.

Before collecting primary data on investment banks business models, it is critical to understand the environment in which these banks operate including legislation, changes in market size, the movements of competitors and players and the intensity of competition. Moreover, having a clear overview of the services provided by investment banks will help the researcher to comprehend the intricacies of provided services, and design the appropriate instrument for primary data collection. The main sources for governmental and regulatory bodies' reports are the Capital Market Authority (CMA), Saudi Arabian Monetary Authority (SAMA), the Saudi Stock Exchange (Tadawul) and the Ministry of finance.

The secondary data included Investment banks' annual reports, financial statements, websites, Pillar III of capital adequacy, risk management disclosure reports, investment products prospectuses and Initial public offering prospectuses. This data was collected to either reinforce primary data or add essential insights that were not mentioned by senior executives on strategic plans, investment products and services, financial performance and indicators, operational data, financial data and human capital data. This data will help articulate and map investment banks business models thorough providing key insights on core activities and associated changes. Table 4.5 provides an overview of the secondary data used in this study.

Table 4.5 Secondary Data Used in this Study

Investment Bank	Financial Statements*			Annual Reports*		Pillar III Disclosures		Investment Products Prospectus**	Website
	2014	2015	2016	2015	2016	2015	2016	Number of Mutual Funds	
A	√	√	√	√	√	√	√	12	√
B	√	√	√	√	√	√	√	2	√
C	√	√	√	√	√	√	√	6	√
D	√	√	√	√	√	√	√	4	√
E	√	√	√	√	√	√	√	4	√
F	√	√	√	√	√	√	√	5	√
G	√	√	√	√	√	√	√	14	√
H	√	√	√	√	√	√	√	8	√
I	√	√	√	√	√	√	√	7	√
J	√	√	√	√	√	√	√	-	√

Source: Developed by (the author)

* Investment banks published their annual reports, financial statements and Pillar III disclosure starting from 2015 reports after CMA requirements in 2015.

** They include money market mutual funds, equities funds, debt funds, real estate funds, holding funds and others.

4.7 DATA ANALYSIS

In order to make sense of the collected primary data, qualitative data analysis was carried out to bring together the various strands and form a coherent story (Rubin & Rubin, 2012). This study used both thematic and content analyses.

According to Braun and Clarke (2006), when examining data, themes may be established in one of two primary ways, namely in a bottom-up inductive or top-down deductive approaches. The former is an inductive analysis involving data coding without directing efforts towards finding a pre-existing coding frame or fitting the data in with the researcher's own analytic preconceptions. The latter approach is usually referred to as a theoretical deductive analysis and is more clearly analysis-driven. This study uses thematic analyst-driven analysis, which tends to provide less rich data but a more in-depth examination in various aspects of the data (Braun & Clarke, 2006). This approach was valuable in terms of categorising meanings through summarising a large volume of data containing various perceptions and thoughts. When examining the raw data, the themes were identified in line with the research objectives, which in turn facilitate focusing on particular aspects of the data (Thomas, 2006).

Thematic content analysis requires pre-set ideas relating to the data about to be analysed in terms of aspects, approach, size and relationships. Additionally, it is used with other types of written form data such as organisational documents, reports, and field notes (Grbich, 2013). Using this technique allowed the researcher to provide insights into how investment banks change their business models. By analysing the content relating to drivers and the associated changes in activities, the researcher was able to integrate the external and internal perspectives of business model innovation.

To qualitatively analyse the collected data, MAXQDA version 11 (MAXQDA, 2012) was used to construct, modify, and maintain code lists, text searches, qualitative analysis, link and deal with documents. This software provided valuable support in carrying out the analysis that makes use of different qualitative data, as in the case of qualitative content analysis (Mayring, 2014).

To enable the researcher to carry out data analyses, coding was performed. Coding is focused on labelling data segments to facilitate the categorisation and summarising of each part of data (Charmaz, 2014). Because thematic analyst-driven analysis was used, the data was approached with specific questions in mind providing a foundation for coding (Braun & Clarke, 2006). Theoretical coding was used in this study since the underlying logic of pre-existing framework and abstract modelhelped developing a mapof this study. This coding assists in: developing a logical and analytical story, identifying the relationship between the different aspects in the data (i.e. themes) (Auerbach & Silverstein, 2003), and reporting an analytic story that has coherence (Charmaz, 2014).

4.8 CONCLUSION

In order to provide an understanding of business model innovation, this study uses the interpretive research paradigm and the qualitative research approach because this research is ‘exploratory’, seeking to develop concepts with regard to changing business models. To explore how investment banks change their business models, this study adopts in-depth case studies as its research strategy. Although several tools were available to the researcher, semi-structured interviews were utilised as the main technique for primary data collection. Using purposive sampling, ten fully licenced investment banks were involved in this study. Data was collected from 29 senior executives and managers at major Saudi investment banks. In order to make sense of the collected primary data, qualitative data analysis was carried out using thematic content analysis. The next chapter will present the findings and provide detailed analyses of these findings.

CHAPTER 5: FINDINGS AND ANALYSIS

5.1 INTRODUCTION

In order to understand how investment banks carry out business model innovation, this chapter will map investment banks' business models and explore the drivers and impact of changing those business models. Business models within each investment bank business line will be explored using our framework of business model innovation (Chapter 3). Further, the chapter presents evidence in relation to the drivers of business model innovation, their likelihood to drive innovation, and the associated activity changes in each business line of the investment banks included in this study.

5.2 MAPPING INVESTMENT BANKS' BUSINESS MODELS

Using our business model innovation framework, this section will map the different activities for all business lines: asset management, brokerage, investment banking and custody services. In order to map investment banks' business models, activities for each business model component across all business lines need to be identified. This section will highlight each component using the data collected to identify core and alternatives activities for each component

Table 5.1 Components and Activities for Investment Banks' Business Models Map

Component	Activities	Asset Management	Brokerage	Investment Banking	Custody Services
Value Proposition	Core Offering				
	Customer Needs				
	Target Customers				
	Perceived Customer Value				
Operational Value	Key Assets				
	Key Process				
	Partners Network				
	Distribution Channels				
Human Capital	Organizational Learning				
	Skills & Competences				
	Incentives				
	Training				
Financial Value	Revenue Streams				
	Cost Structure				
	Cash-flow				
	Margins				

Source: Developed by (the author)

5.2.1 VALUE PROPOSITION

5.2.1.1 Core Offering

In asset management, which is mainly the management of investors' funds and providing investment products in accordance with certain guidelines, core offering includes providing asset management solutions or portfolio of, niche, innovative, white labelling and world class investment products. Investment product portfolio includes global funds, mutual funds, debt funds and equity funds. Niche investment products include real estate funds and sharia-compliant funds. The latter refers to investment products that comply with the Islamic religion's instructions based on several principles. These principles prohibit interest in its traditional form (such as interest on deposits) and investments in assets that are against these principles such as gambling, tobacco and alcohol. Asset management solutions are those related to manage discretionary portfolio management (DPM) and create investment products according to investors' objectives.

Brokerage services provide trading platforms to clients for trading instruments and manage funds without the investment banks' intervention in buying or selling decisions. Brokerage, on the other hand, does not offer investment management services. Rather, investment banks provide trading platform with options that include access to trade different assets class and commodities, access to different markets, access to advisory services and underwriting service. In addition to these services, some banks have chosen to focus on specific services such as margin lending, brokering and intermediation of financial instruments, swap agreements and complementary services.

In investment banking, services provided can vary from portfolio of services such as mergers and acquisitions (M&A), IPO to niche services by only serving specific needs according the investment bank capacity. Moreover, some banks have chosen to provide advisory services.

Custody services are provided by investment banks to safeguard individuals' assets. It takes a form of back-office operations including preparation of reports, settlements and administrative services. This line of business is emerging in Saudi Arabia and some banks are trying to provide all services and lead the market, while other banks choose to only provide this as an extra service. Table 5.2 outlines the possible alternatives for core offering reported to have been pursued by all business lines of investment banks.

Table 5.2 Core Offering for all Liness

Core Offering	Asset Management
Asset management solutions	**Discretionary portfolio management:** "Asset management in both kinds … the funds management … and the DPMs portfolios for private clients … In DPM the investments products created according to investors' objective in terms of return … risks … assets classes … different from the portfolio of investment products we offer to all." (B1)
	Client-centric investment products: "The value proposition ... that's always continues improvements in what your product offering ... how you offer it basically ... more clients-centric advisories ... how you offer... packaging is also important." (G2)
Innovative investment products	"Everything means in the asset management … your innovation is how you can create new product." (A1)
	"We have many achievements and still we do … We are the first company in KSA that provides the EFT fund."(C1)
	"We make a product that is not offered by banks … investors in some money market funds offered by us … are guaranteed 3% at least." (D1)
Portfolio of investment products	"If you want to succeed in asset management onshore you need localized products ... you need products that are unique." (J1)
	"There were some funds that we cancelled ... the issue is related to the investment awareness ... for instance ... multi-asset fund … we have a complete spectrum of asset classes." (C1)
	"If you want to stay in investment bank ... you have to some basic products ... such as Murabaha ... money market funds ..." (D3)
	"we have seen all players placing the same investment products ... you have the products all payers provide ... We have four funds ... mutual funds ... and private equity funds ... we now are going to have more private funds for instance ... hospitality." (E1)
	"Equities funds ... fixed income products ... private equity ... IPO funds ... and real estate investment products ... We have a mix of products and ... a wide range of investment products with varying risk levels." (D2)
	"Today, the strategy is built on diversification ... We are not the pioneers that we go down equities or income funds but we did it on a different platform ... Now is the time to do GCC as this began to improve the yields … It is suitable time ... We will not tolerate the Saudi funds ... now timing is important in diversity." (H1)
Niche investment products	"... we have three assets classes which we will be active in ... real estate fund ... local equity and balanced funds ... these three ..."(A1)
	"Our strategy is to work in asset management like real estate … equities and private equities."(B1)
	"Had a single fund … we launched 3 funds … the sizes are varied from SAR 1.3 to 1.8 billion." (F1)
	"Our focus now is on real estate funds ... It represents 70% of our investment products whereas as the remaining is equities 30% …" (F2)
	"One bank is better than us in Sukuk investment products ... we are better than others in IPOs." (G1)
	"We have sharia-compliant and non-sharia products and you can choose" (I1)
White labelling and world-class investment products	**Global investment products"** "For the purpose of selling global funds what we do globally ... there's no need to establish a large platform in the kingdom ... Clients are interested in buying global products ... we can do that without having to place a lot of people onshore."(J1)
	White labelling investment products: "If you are offering an Investment product ... white labelling ... You have to sell locally the investment products offered by global banks ... You are getting products from well-known investment banks ... specific products and market them to local investors ... " (I2)
	Offshore asset management: "Our business model does offshore asset management at the moment." (J1)

Core Offering	Brokerage
Accessing financial instruments	"We give discounts on commissions … but not that deep discount … I give you margin lending … and give you a product … and give you exposure on the other service for instance asset management ... meaning that targeting clients that can easily be acquired ... you do not have to incentivise them with deep discounts ... we are competitive in the facilities but not cheaper than others ... however … we provide services that others do not provide ... for instance ... accessing to different financial instruments … commodities … financial derivatives. " (F1)
Accessing markets	"Brokerage as a service … local and international stocks in different markets ... research department covering local companies … Local economy ... regional companies and economies."(C3)
Accessing advisory services	"I think we want to transition from an execution or a product provider to be a service provider in the long term and we want to be advisors ... not salesmen ... So ... for example ... in the brokerage side ... so far it's execution only ... now we've put a sales and trading team behind it ... So these are people who can advise clients on what to buy and sell ... not just say that what you know ... call us to buy and sell but we can also tell them what to buy and sell." (G2)
Underwriting service	"In this area we are only focusing on underwriting services." (B1)
Providing specific services	**Margin lending:** "In 2008 … we introduced the margins trading ... Basically … we saw the opportunity at the market was low … so basically we need to encourage people to go to the market and double their chances and making money by having leverage." (C2) "It gives the brokerage client one to one for free ... You ask me how I get the interests ... the investor is obliged to trade 8 times a month. ..when s/he does so ... s/he gives me a commission ... as a company, the commission gives me 12% .. So the investor trades eight times through me and 4 times on his own." (D1)
	Brokering and intermediation of financial instruments: "I try to keep my ranking ... I mean market share among brokerage houses ... because I had a plan on certain products that we should complete with this year which is in intermediation of instruments ... it helps to support us to proceed forwards ... but we faced some barriers in certain products Internally and externally" (E2)
	Swap agreements: "Our Brokerage is serving the swap agreement more ... because our rate is not competitive in brokerage ... we have a target customer for swap agreements ... We are a big partner.... We use our London office as our swap agent." (J2)
	Complimentary services: "We have a brokerage which is a complimentary service ... which is not our core activity but at the same time we're offering to the clients' as well so any client who's interested in doing any financing sort of arrangement … we now have a settled system for brokerage ... It is a cost centre now that is complementary to the client and serves our asset management because all the funds work through it." (D3)

Core Offering	Investment Banking
Portfolio of investment services	**Debt capital markets:** **"**You have to diversify your business is in the field ... we try to keep the sustainability of profitability … we are able to do it through debt arranging … you've got a project in need of funding... we provide the advice and corporate finance services to help you funded by markets." (F3)
	Merging and acquisitions transactions: "Investment banking market started quite large with the securitization ... merging and acquisition... private equity among other things. ... We would like just to understand which one that can differentiate our own proposition." (A1)
	"Our license falls under arranging ... the arrangement of securities private or public ..... We offer subscription services in IPO … We offer Sukuk services to what they call debt arrangements." (I1)
	Equity capital markets (IPO & right issues) and private placements: "Deals with private companies want to go public ... Initial public offering IPO from A to Z services ... private placement looking for companies to increase their capital or establish new companies and communicate capital ... merging and acquisitions for private companies or public companies ... a company intends to own another one or merge with another company." (C3)
Niche services	"We're targeting tier one ... In M&A ... IPO ... Debt arranging ... we have a certain capacity ... We work on specialized transaction ... others cannot do it ... we participate in certain transactions with other APs because of our capacity … for example … our capital is one of the largest capital of APs in in Saudi Arabia ... In leverage ratios .... We do not have the capacity to serve all market ... we do not have the capacity to do everything.... and accept break even ... We have to choose and be very specific on what we accept and what we do not." (J2)
	"Today we are talking about investment banking ... the different ways we can look at this ... different levels that we can talk about ... Of the levels that you are able, focusing on one product or one industry … Or few products or few industries and these are your niche and this is what you're talking about." (H2)

Financial advisory services	"we provide advisory service in arranging … and financial advisory and provide structuring services for the company sometimes need to do capital structure which we can give indications about the situation of firms' capital structure." (I1)
	"I will talk about the corporate finance ... the corporate finance means we are selling our professional services ... we are not selling products which means we are selling advisory work … in this we provide solutions to fund and restructure their capital and the optimal capital structure." (C3)
Core Offering	**Custody Services**
Providing all custody services	"Custody ... you know CMA has approved the Independent Custody system ...So no one has custody mature enough to compete .... On the contrary ... we invested big in the IT infrastructure and systems …. We will be one of the big players in the market who provide all custody services from Safekeeping ... administrative functions for AP's ... to proxy services." (J2)
	"Custody is a very important area for us ... we are working intensely ... let me put it this way ... in developing our custody product ... independent custody model.... but issued regulations very late into the process … we aim to be done in terms of all custody products ... we should be custodian ... we want to be the custodial choice for Saudi Arabia providing asset servicing and trading settlements." (J2)
Providing custody as an extra service	"We've also started custody agency business as well as market making business to serve AP's in maintaining assets." (G2)
	"We now take up the role of the custodian to the companies which are not listed in the Capital Market ... 'Tadawul' offered this service ... the difference between us and them is that we can mortgage equities and the investor takes a bank loan ... We guarantee the bank that the equities are kept intact; nothing can be done with them ... they can't be divided or inherited." (D1)

Source: (the author's fieldwork)

5.2.1.2 Customer Needs

One of the key customer demands in asset management of the investment bank is its track record. Depending on the performance of the asset manager, the client is either attracted to close deals with the bank or decline as he/she finds other managers with better records. Moreover, without transparency, clients will not invest. It is critical for clients to know where their money is being invested. Having satisfied the above demands, clients discuss the potential returns associated with their risk profile and time horizon that could be achieved. Asset managers will close deals that have more potential for high returns. Furthermore, some banks are opting to customise their services in order to attract high end clients.

Customer needs in brokerage relate to trading platform, high returns, and complementary services. Investment banks with focus on brokerage must have a trading platform that is flexible, easy to use and secure. Customers engaging in this line of business demand usually margin lending otherwise they would move to other competitors. Investment banks are also offering complementary services to win over more customers such customized portfolio's and analysis reports.

Banks changing their investment banking tend to either change the quality of service or the timeliness of service delivery. The former can be attained through providing financial planning and advisory, responsiveness, and confidence to execute the transaction. The latter relates to how fast the investment bank can make the transaction, and informing the client how long the transaction would otherwise take.

The regulatory body requires mutual funds to appoint an independent custodian. Thus, impartiality is a must. Financial institutions need Investment banks that can perform this function at the lowest possible cost in an efficient way.

Table 5.3 provides evidence for each of these customer needs for different business lines.

Table 5.3 Customer Needs for all Lines

Customer Needs	Asset Management
Investment performance track record	“The asset management is one of the most things where the challenge is to build your track record … it is required by investors to attract them.” (A1)
	“When someone wants to invest with you … you are asked about your track record … what you achieved in the last three years … so … the first thing we build … track record in assets management.” (A1)
	“It depends on people relationship … and of course performance ... if you want to invest … you look at the performance of all fund managers.” (C3)
Transparency and advice	“For other clients ... transparency is the priority ... they require to know what we do with the money and how we invest it and what the advice is.”(B2)
	“Investors' risk appetite is important .... I define risk factors for investors ... some of the customers do not understand investment products ... whereas some customers do tell you I have an exposure on X assets ... even the simplest investment product has its own risk ... the client does know he is obliged to buy this investment products upon his own responsibility.” (G3)
	“Through the portfolio ... It is a matter of "know your client" ... the first thing I focus on when I first meet a client... I set a portfolio for him and I explain it along with the risk and expected return ... It happens after I study the client's character and then offer him a product” (B2)
High-returns, risk profile and time horizon	“In DPM's ... Investors originally give you the guidance and need you to work on it ... what risk level and time horizon is … etc.” (A1)
	“Investment is opportunity to the client … It offers things that satisfy the client and achieve his investing goals … I mean it makes good revenue during the investment.” (C1)
	“Regarding investment funds ... Yes ... we are trying to accomplish the highest return with the least risk to the investor … this is a core need.” (C1)
	“Customer satisfaction is achieved in several ways ... first ... most say the return in the first and last ... you give him a good return ... It is the number one ... It is the quick service or quick response to the demands of investors ... we try to achieve it through being flexible with it … even if we have terms and conditions.” (F2)
	“Within asset management the top one is performance ... because our clients invest in our products with the expectation of receiving as much outperformance as they can ... versus benchmarks ... or what their reference index is ... as asset managers … that's the primary role.”(G2)
Customised services	“We want people to see us as an investment boutique that provides customized services ... our customers are corporates and ultra-high net wealth individuals ……they need customized stuff to manage their money.”(B1)
	“I try to convince him ... customers’ demands are the first priority … what are they looking for in an investment product ... upon this ... I recommend a product for them ... if we do not have the product that suites them ... there are many solutions such as portfolio management DPM’s.” (C5)

Customer Needs	Brokerage
Efficient trading platform	"When you sit down with a customer ... the client tells you ... I prefer to use the X system ... the X method ... or other systems provided by other brokerage houses ... thus we have to upgrade our platform." (E2)
	"In brokerage ... they now rely on two needs that most customers are willing to go with in online platform ... that is customers do not want to go to branches ... and the need for margin lending that has been taken as the primary product for brokerage." (I1)
	"even when you have active traders no matter how much discount you are offering ... they will go to other banks because they offer them better trading platforms." (C2)
	"We have the systems that have impact and speed in responding to the customer especially in brokerage ... after that we tried to develop a system in accordance with the customers' requests and the systems in the market."(F2)
Margin lending	"For example ... another bank provides equally good service with better margin in financing options ... Investors are not loyal ... they will go for a better performance ... they will go for a better return ... so if you are giving margin financing on 7% and I give a margin financing on 5% and the two percent anybody will seek." (D2)
	"Most of the clients of brokerage want margin." (E1)
Complementary services	"Investors prefer commercial banks affiliate investment banks ... It means you give them an ATM ... a credit card ... a personal loan ... all the banks settle ...... you're close to home via branches ... when you have an investment bank as a subsidiary and has excellent investment products and excellent performance ... they prefer to open the current account where their investment accounts trade through brokerage of the same group."(F1)
Customer Needs	**Investment banking**
Service quality	"In general ... meet their needs towards giving attention and quality of service and execution... in terms of financial planning ... and in terms of the financial advisory." (C3)
	"Customers want to have access to the global centres of excellence ... relationships with institutional investors ... the powerful set of products and everything else that (J) covers globally." (J1)
	"One of the things ... for example ... that we noticed... is attention.....When a corporate goes to the very large investment bank ... It is not given the proper attention ... here we give him at senior level the proper attention regardless of the fees ... we work with them as a trusted advisor ... very large investment banks are busy." (H2)
Transactions record	"In our investment banking ... an operation provides consultations and whole arrangement ... of course in order to increase the size of the market share and compete you have to have been there for a long period with good track record to make clients confident regarding your ability to execute the transaction." (F2)
Timeliness	"This journey takes one to two years ... this is the goal in front of us ... we clarify the time required ... because some people used to come and say that they want to go for IPO and think that in two months or three ... it is not possible to become as a public company in a short time ... we place a realistic and practical time plan for them ... communications always open with the client to understand the end results." (C3)
	"We do not try to get many transactions ... we start a new transaction when we finished the previous one... we deliver what we promised the clients... thus we sit down and give him the timeline ... we rejected some transactions because we say this is unrealistic in terms of time ... In investment banking services clients focus on time factor." (I1)
Customer Needs	**Custody Services**
Independency	"In custody services ... mutual funds need an independent custodian bank to manage the administrative functions." (I2)
	"We can maintain equities and the investor takes a bank loan ... we guarantee the commercial banks that the equities are kept intact ... they can't be divided or inherited ... beyond the knowledge of the bank." (D1)
Efficiency	"The operation side ... I mean back office of mutual funds and asset managers are a headache ... financial institutions seek a custodian bank that has the ability and commitment to perform such functions in an efficient way and less cost." (J2)

Source: (the author's fieldwork)

5.2.1.3 *Target Customers*

In asset management, target customers are corporations, high net-worth individuals, and retail investors. Corporations include government institutions, universities, insurance firms, and commercial banks. High net-worth individuals are individuals with wealth exceeding 10 Million SAR and could have a portfolio of 5 to 10 Million SAR. The retail category includes individual investors who are interested in specific Islamic investment products such as Murabaha. On the other hand, the target customers can be targeted based on portfolio values regardless the either corporation or individual investors.

Investment banks target different set of customers for brokerage. These include financial institutions, portfolio investors, active daily traders and sharia-compliant clients.

Investment banking provides financial advisory services, which are often targeted to corporates including financial institutions and family business. Thus they are business to business relationships. The business offers equity capital market, corporate finance and M&A services. Thus, target customers are mainly economic entities rather than individuals including firms and governmental institutions. Additionally, customers may be targeted according to transaction value regardless the customer classification legally. It includes those seeking finance through IPO with at least 100 to 500 Million SAR.

Similar to investment banking services, custody services are sought by corporates, financial institutions, governmental institutions and mutual funds. These clients are interested in increasing efficiency or the regulatory requirements in which an independent custodian maintaining assets services.

The tagert cusomers across all business lines are summarized in Table 5.4.

Table 5.4 Target Customers for all Lines

Target Customers	Asset Management
Corporations	"... corporate is targeted ... all the joint stock companies whose financial reports include investment portfolios ... some universities' funds ... and entities such insurance firms are seeking a stable income." (B3)
Governmental institutions	" Corporates and the ultra-high net wealth individuals and the semi government institutions ... our services are directed towards the corporates ... " (B1)
Financial institutions	"My target is divided into three categories ... the first category targets the financial institutions and some commercial banks ... we do business with commercial banks because we were number one in the Islamic

	Murabaha Fund in 2013 and 2014 in the Saudi market ... so banks give us savings to keep in Murabaha ...” (D1)
High net-worth individuals	“The ultra-high net wealth individuals ... meaning really rich people not retail... based on that you see that our location we do not have branches. “(B1)
	“The target customers are the upper layer of the average income segment … those who have wealth which exceeds 10 million.” (B2)
	“We cannot go into the retail segment ... one clear hurdle that … we don't have branches ... so retail is looking for branches ... is also looking for various different ancillary and banking services as well ... so retail from that point of view is definitely not a target segment for us ... the target segment is slightly above retail ... we are looking at high net worth ... ultra-high net worth.” (D2)
	“We concentrate more on high net worth clients ... rather than retail segment clients” (D3)
	“We differentiate ourselves ... we are saying to the client who likes to have a discretionary portfolio management with five to ten million ... we would like to offer the service to them … because we believe that these are the potential big clients down the road that can really bring a lot of other AUM to us.” (D2)
	“In asset management … we have segmentation according to the portfolio or the AUM that the client maintains with us.” (H3)
Retail investors	“We have a tendency to retail mainly products, which is a bank that is considered a retail bank as it is an Islamic bank as well as our spread in the cities ... Now ... the main revenue comes from the corporate ... but the long term ... retail dominates the balance sheet ... we are building the investment products to cater.”(F1)
	“The segment of the investors who want Islamic financial investment products we consider them as a segment of our customers today ... offering them Islamic investment products suitable for them with trust in its Islamic structuring ... Some investment products do not fit only a certain category of investors for instance venture capital funds ... we went to corporates not individuals.” (F2)
	“Murabaha ... these are some products which are not designed for individuals ... however the real segment which we target is the individuals who have money but they do not have any idea how to invest it.” (D1)
Portfolio-value-based investors	“When we try and launch a product and target a certain product for a certain client ... of course the classification is based on wealth value.” (G2)
	“In asset management … we have segmentation according to the portfolio or the AUM that the client maintains with us.” (H3)
Target Customers	**Brokerage**
Financial institutions	"In brokerage ... we have a target customer ... targeting the swap agreement clients... We are a big partner ... We use our London office as our swap agent.” (J2)
Trading-value-based clients	“We do that in our brokerage business .... we have segmentation according to the income that the client generates … trading values in particular.” (H3)
Active daily traders	“We focus on daily traders... maybe we will be considered as a discounted broker ... but we still focus on the quality clients .... we always assess our relationship with the clients in the brokerage ... this means to cast most attention on the active daily trader clients rather than large investor ... If you are not an active trader then you are not the large traders associated usually with risks … they are not targeted.” (C2)
Sharia-compliant clients	“We are originally offering brokerage with only sharia-compliant .... We are told that ... you limit yourself..... Yes … but in fact this is your target customers who look for sharia-compliant shares to trade.” (I1)
Target Customers	**Investment Banking**
Corporates	“In advisory ... usually our customers are either listed firms who have the potential of increasing capital … most of the information is available … so basically you can get information about the company that is losing money and they would like to increase their capital ... so you can sense these are potential clients ... or a company that is a close joint company and puts a press release saying that, expressing that we are willing to go public.” (C2)
	“In investment banking ... our work is with corporates where they look to acquire firms and are willing to get financing either equities … debt ... or would like to go public via IPO.” (I1)
	“Corporates need an advisory business ... today the process is the same either for small or big corporates … in IPO or issuing Sukuk or selling firms ... at the end … the same steps to complete the transaction ... I prefer to go with the biggest clients because a bigger client is a higher fee ... we take a percentage on deal value … If we want to put it in the technical language medium and small companies we are not interested in because they will not pay the

	fees that would make us cover our cost." (F3)
Governmental institutions	"In the investment banking group ... we deal with institutions and governments units or corporates more than retail." (C3)
Transaction value-based clients	"For IPOs it's basically ... I would say the larger transactions ... so we try to target IPOs that are above a billion ... but realistically above 750 million ... we try and target that ... I think we are happy to do deals that are above 500 million." (G1)
	"we're talking about companies who might be at an early stage for IPO ... today the CMA requires at least 100 million for a company to float ... If we are talking about a 100 million .... the size of targeted firms will be at minimum value of 300 million as firm's size." (H2)
	"In order to identify your target customers .... In general we are targeting medium firms with sizes in between 100 to 500 million." (I1)
Target Customers	**Custody Services**
Corporates	"Custody ... you know CMA has approved the Independent custody system ... so no one has custody mature enough to compete ... no competition ... on the contrary ... we invested big in the infrastructure and ... God willing ... we will be one of the big players in the market ... We are targeting existing relationships with global custodians originally and pension funds." (J2)
	"We now take up the role of the custodian for companies which are not listed in the capital market ... our aim is not to satisfy the companies but more importantly ... shareholders ... a bridge to reach them." (D1)
Financial institutions	"The custodial service ... We have attracted most institutions .... Mutual funds and brokerage at the same time ... because some institutions bought instruments through us ... for example ... we became the Custodian." (E1)

Source: (the author's fieldwork)

5.2.1.4 Perceived Customer Value

In asset management, perceived customer value (PCV) is critical because trust between the investors and investment banks plays a major role in attracting capital. PCV in this line of business is gauged through asset manager's continuous update or monitoring of customer feedback. Asset managers contact their clients frequently and update them on the performance and quality of their investment. Moreover, they continuously monitor customer feedback through subscriptions and redemptions movements, transactions, phone conversations, press and social media. PCV is gauged in investment banking by continuous monitoring of customer feedback. This is done through direct communication and interviews, email exchanges, investment portfolio transactions, customer calls, and social media. The movement of the investments is monitored through the subscriptions and transactions in investment funds. Maintaining customers and increasing the number of subscriptions mean satisfied clients. The growth in the volume of assets under management also gives a positive indication of PCV.

The perceived customer value is sought from brokerage faster than other business lines of business. Traders usually contact brokerage houses directly when issues arise. The need of brokerage houses as discussed earlier relates to trading platforms and quality of execution. The feedback is given instantly to the call centre or client's services centre. The case is more evident if the client is an active trader. In Saudi Arabia, volume of trade in Saudi stocks exchange is dominated by individuals. Thus, the importance to monitor their perceived value is high, since ignoring them could have a negative impact as traders talk about their brokers. Direct communication, monitoring customer calls, social media and press, and investment portfolio transactions are methods to gather perceived values.

In investment banking and custody services, the number of clients' (corporations) transactions is limited during the year. Thus, direct communication through frequent meetings between the investment banks and their clients are arranged to gauge PCV.

These are summarised in Table 5.5.

Table 5.5 Perceived Customer Value for all Lines

Perceived Customer Value	Asset Management
Updating clients	"We have got two of the funds … close ended fund and open ended fund …In the closed ended fund … the problem lies in that the client will not know the performance and is not easy to get the feedback except at the end of the project … we try to provide ongoing update to explain and take the feedback before the end of fund." (A1)
	"At the end … people want from you the performance and your quality of reports … you send information you share it with them … Customers are quick to withdraw their money before knowing their feedback."(A1)
	"We have a target for asset managers to contact or interview their clients at least 2 times a month to give him updates on the market … and the performance of the funds … and see if there are any tweaks and changes in the clients' desires and instructions … or if there are any problems". (B1)
Subscriptions and redemptions movements	**Subscriptions and redemptions movements:** "We have an approximately daily monitoring for our fund investment … and we have good monitoring over the annually planned targets which we try to accomplish … subscriptions and redemptions movements are utilized to measure the customers' view." (C1)
Monitoring customer feedback	**Key account manager:** "We keep seeking feedback from the customers directly or over the phone by key account manager to make sure they are happy with what we are delivering to them." (G1)
	Sales Team: "Sales and wealth management give you the trend analysis … where people like more to invest their money and all of this aspect … and then they go to the kitchen … the asset management … tell you the investment products design and customers' views to meet the specific demands." (A1)
	Wealth management team: "We try to stay in touch with the customers from time to time at various levels … of course there's a customer relation team among the wealth management team … we're trying to stay in touch with our clients and take their feedback … and implement their recommendations and share this with the management." (D3)
	Social media and press: "We follow what is being talked about us in social media and press." (D1)
Perceived Customer Value	**Brokerage**
Investment portfolio transactions	"At brokerage … we always make a weekly report and we see problems to solve for customers … the change in transaction value of clients' portfolios are monitored closely." (F2)
Monitoring customer feedback	**Direct communication:** "The customer is usually very active … so you are already connected to them … If they are not active you will not know whether they are happy or not … because the interaction with active trading clients is almost daily … so basically the

	moment he stops trading for a day or two you will sense there is a problem … the relationship team speaks to them." (C2)
	Emails: "We have something an email address ... called adding values ... like complaints handling ... so basically it goes to a different department where they look at complaints and be contacted by clients and see what the problem is... that is an independent department." (C2)
	Monitoring customer calls centres: "We monitor via the communication line between us and the customers in the brokerage ... it is every day ... I hear calls and customer complaints … I have an access to the call centre ... even the business line team has the access to monitor." (F1)
	Social media and press: "Direct feedback mechanism through social media ... through a twitter account ... through Facebook ... we develop live chat … In brokerage … in terms of market share versus profitability and trade volume ....these help us to measure the value being perceived by our clients." (H1)
Perceived Customer Value	**Investment Banking**
Direct communication (Meetings)	"What the market thinks of us … basically the best time to do it is during the proposal period understand why a company did not come to us … we follow up with these companies … finding out why they do not select us at the first place during the proposal period … we ask people why and how you did come to us I always ask them." (C3)
Perceived Customer Value	**Custody Services**
Direct communication (Meetings)	"Our services In custody are mostly dedicated to investment banks and mutual investment funds … they are in the industry and know how things work … we meet with them to get their feedback … what is required to improve the services." (I2)

Source: (the author's fieldwork)

5.2.2 OPERATIONAL VALUE

5.2.2.1 Key Assets

One of the senior executives refers to key assets in the following statement:

> "… the best thing is that … our industry does not require many tangible assets … basic assets is all you need in investment banking."(H2)

Asset management software is the key asset that includes clients' accounts and financial analysis applications. This system produces the portfolio reports and helps manage funds. Some systems have the capability to study the movement of shares in the capital markets in terms of trading volumes and historical shares' prices to provide indications of when to enter or exit from a particular stock. Also, financial analysis programs play an important role in helping asset managers perform their work. These programs focus on giving financial indicators and calculating financial ratios necessary to evaluate the fair value financial instruments. Changing the trading platform depends on the level of sophistication the investment bank seeks.

Trading platform represents the main activity within brokerage. Evidence suggests that it is critical to have a trading platform to deliver brokerage services. Some investment bankers suggest that a sophisticated trading platform is all a bank needs to win over customers. The trading systems can be developed in house or outsourced. In addition, liquidity is also considered as a key asset; because brokerage houses provide margin lending to their clients. Banks change this activity by looking at ways to source cash either internally or externally and the associated costs for each option.

From our evidence, there was no mention of key assets for investment banking business line. This line does not require an infrastructure of assets in order to provide its services. These services are performed by the team.

Investment banks rely on custody system and vaults as key assets to deliver custody services. Custody system is used by investment banks to manage their back office functions including records and reports, reconciliations, administrative functions, and corporate actions. Moreover, vaults are used by this business line to protect investors' funds documents and ownership certificates.

Table 5.6 presents the key assets for all business lines.

Table 5.6 Key Assets for all Lines

Key Assets	Asset Management
Asset management system	"We have invested a lot in the systems … especially to manage asset management clients' accounts and the brokerage system."(E1)
	"Management systems … are the key assets along with the IT system which is surely the backbone … Financial analysis applications are a must in this area." (B1)
	"Research requires tools … It needs a system … financial modelling … and team … the reports need two to three weeks to be issued … you need ongoing research reports … works on financial analysis report." (C5)
Key Assets	**Brokerage**
Brokerage system	"In the brokerage … It is about the system … we know this is the differentiator and we work on it …" (A1)
	"… I mean we always invest in systems and infrastructure … we know the system makes customers happy."(A1)
	"The innovation is always in the system ... In the services which you provide ... the ease of implementation of transactions … entering orders ... buying and selling." (A1)
	"Our brokerage system is outsourced … we get the trading platform from local provider." (E2)
	"the brokerage is an ongoing development for the platform … very good solid system … for brokerage is about system … if you are a very active trader no matter how much discount you are given … clients go to the company with a very good platform." (C2)
	"After two years … we have the opportunity to compete in it … we have the system that has an impact and speediness in responding to the customer … especially in brokerage … after that we tried to develop the system in accordance with the

	customers' requests and the systems in the market." (F1)
	"Within the tangibles … it is IT which is sort of intangible that is, investment in technology is the most critical investment of an investment firm today … the more robust your platform is to provide brokerage or asset management services … the better chances you have to prosper … I mean … today it is not just good to have this … it became a must."(H3)
	"We use technology ... technology services and applications in brokerage ... we try to come up with new added value ... technology is ever evolving what is now top end ... after a month could be standard ... IT number 1 … the infrastructure and systems." (H1)
Liquidity	"In margin lending and underwriting the key factor is cash … I mean liquidity and our capital … we have been asked by regulator how you will use your capital to give margins and secure cash … we think in another way to secure the cash instead of our capital through money market funds with our treasury."(E1)
Key Assets	**Custody Services**
Custody system	"From an operational point of view … we need custodian system and solutions to perform many functions" (I2)
Vaults	"… we need … vaults for keeping certificates safe... It can be given to commercial banks where they provide safety boxes ... I think it is costly." (I2)

Source: (the author's fieldwork)

5.2.2.2 Key Process

Evidence suggests that three processes are vital to asset management namely new product development, approval and compliance and execution and monitoring. The first is concerned with creating new offerings that are competitive in the market by getting a team together tasked with researching the market, determining the feasibility of launching new products, and following the internal procedures to get them approved. This will be done by various departments communicating with each other including asset management, research division and fund management. The second process is concerned with adhering to the regulatory body rules and regulations to get the new products approved. Because it takes a long time to get approvals, many investment banks introduce a few new investment offerings on a yearly basis. The latter process is associated with management approaches to manage funds such passive or active manage. Additionally, it includes the asset allocation, execution transactions, monitoring underlying assets and markets and risk assessment.

Since making brokerage services available online, it has been critical for investment banks to have system recovery process in place to reduce the risks associated with system unavailability. In addition, the margin lending is required to be facilitated in rigours process to make sure that qualified clients are only given margins associated with collaterals and risk management to ensure that the collaterals cover the credit facilities in the event of default.

The three key processes of investment banking line are regulatory process, valuation and due-diligence. In adherence to the CMA regulations, there are a set of processes determined by regulator to be followed in certain transactions such as IPO. These processes start before valuation to the end of transaction. They include applying the IPO prospectus, book building process to price shares, record investors demand, allocate assets process and return funds. Valuation is a process that investment banks need to take the client through in order to study the industry, analyse financial figures and determine the enterprise value. Due diligence process goes hand-in-hand with the valuation process including financial and legal due diligences since making one mistake in this process could jeopardise launching an IPO.

Since custody services manage back office operations, senior managers did not discuss any processes. These services are mainly related to providing information and reports, safekeeping assets, settlements and payments that do not require sophisticated processes.

Table 5.7 Key Processes for all Lines

Key Processes	Asset Management
New product development	"There is a very exhaustive process ... internal process in (C) ... It's called ... NPA new product approval process ... and this is a very detailed process that has been examined by legal ... compliance ... management ... business unit ... risk management ... operation ... to make sure that they are complete ......before an investment product is given." (J1)
	"We have 3 departments in the asset management ... the research division ... the fund management division ... and the structuring division ... Investment funds start with the product structuring division as we design it ... prepare terms and conditions documents ... at the same time the research division starts studying feasibility study for example if the project is a real estate fund ...the market study is also conducted to measure investors' orientations ... thus both go hand in hand ... "(C1)
	"The product structuring ... when we conceive the product ... it is basically a collaborative effort that goes on between management team ... of course ... our wealth management ... which is the sales people provide us feedback from the market on what investors want ... what investors don't want ...then ... It comes back to us ... we run our product development process ... to see ... are we equipped to deliver this solution ... can we do it or not ... and ... then ... secondly what's the best way to do it ... Internally or externally ... If it's externally just find whoever's the best at it ... globally to deliver that solution ... If it's internal we have to determine whether we have the resources in-house to do it or not ... Is the expected revenue strong enough to actually justify such an activity or not ... so that's a key part of the decision." (G2)
	"Most of the time ... and before starting the product ... we look at the team we have ... discuss the product as a concept before heading to the process and deciding what we could do ... and whether it is applicable or not ... then we imagine the process in the early stage ... the operations decide what we could do ... " (C1)
	"There is a committee consisting of the treasury ... finance ... asset management ... investment banking ... and CEO ... and we have also two independent external members involved in the process when introducing new investment products." (C4)
	"We discuss with other departments … such as the compliance department … what are issues that might be faced with the new fund." (C1)

Compliance and approval	"There is an integrated target document for all types of funds… and everyone is aware of it to know how to deal with the new investment product ... opening an account ... which CMA approval is needed ... subscription process ... getting money ... discounting commissions ... partnership fees, and all those things that are updated and distributed gradually." (B3)
	"Asset managers ... the terms and conditions of the fund are done based on the template document of the committee ... a final version cross checking with the compliance officer ... " (B1)
	"Each of our products have to be approved ... once they're approved ... audited and the documents are ready ... then a management team puts the product into the market ... various products with various criteria ... they are placed to different kinds of clients." (D3)
	"For regulations ... you make sure the investment product you provide meets the general regulations ... the regulator's approval when you offer a product ...the structuring phase ... filtering phase ... and the final product phase after being reviewed by asset management ... Sharia committee ... and compliance review." (C5)
	"… if we notice a potential investment opportunity that meets our investment goals ... and is achievable ... and could be acceptable to clients ... we start the process with the committee to licence the fund ... after the approvals are done ... the product management is transferred to the fund's management team." (C1)
	"In asset management … your terms and conditions are important and should be very strict … it is an essential step in the product launching process." (D1)
Execution and monitoring	**Asset allocation:** "The process of portfolio weight assessment ... execution ... monitoring ... belong to the portfolios manager ... He is completely familiar with the assets ... but the asset allocation should be in the fund mandate." (B2)
	Passive management: "We want to distinguish ourselves in the market ... we are not traders in managing funds ... many IPO funds are managed actively ....our approach to manage funds is to keep shares until it reaches the target price ... it's kind of passive management ... opportunistic ... this reflect on fees we charge and costs we bear." (F1)
	Active management: "The value of active management globally has gone ... declined significantly ... the future trend ... is that pressure will still be ... charging performance fees is getting more and more difficult on a long term product ... even the managing fee ... the value of active management will go down ... the value of passive management will go up ... so managing fees again will be squeezed." (G2)
Risk management	"Plenty of these kinds of funds are available in the market … but what we're different to do is referring to our expertise we're trying to offer a superior risk management controlling product … do not forget that risk management … all types …financial risks with currencies or assets even liquidity … operational risk for products performance and our reputation … strategic risks should be managed … we should develop a process to identify and respond."(D3)
Key Processes	**Brokerage**
Margin lending	"We handle the relationship with the client who has margins … the margins trading still paper work but there are some functions we already offer it online ... there must be some sort of change ... you have to introduce some other committee ... for example credit committee when considering Margin lending." (C2)
Collaterals and risk management	"If you rely on the Margin lending given for trading ... If you do not have very good collaterals and risk processing and management … IT and solid procedures ... you are running a very high risk business."(H1)
	"The margin lending process has been developed ... the past was manually ... now … Just simply open the application ... you choose the credit facility ... you have access to the facilities by system ... go to the platform ... request ... the request will be received and processed ... this will be approved within 24 hours if the client qualified based on our criteria ... the risk management and the way you manage collators are a major process part of brokerage operations." (I3)
System recovery	"Trading process is automated ... but there are connect lines between Tadawul and our brokerage system provider ... and direct access between us and the system provider ... one of the processes should be there is the disaster recovery plan if the system went down." (E1)
	"... If you do not have very good collaterals processing and management … IT and solid procedures ... you are running a very high risk business."(H1)
Key Processes	**Investment Banking**
Regulator's process	"We have to price the deal ... We have to convince them that we are good enough ... then the discussion is on valuation ... It's a very long process to deliver that product to a client ... the process at a certain point should be consistent with the procedures of the regulator." (G1)
Valuation	"We always start from understanding of the company then our analysis of its valuation ... and value drivers ... then we do the actual valuation which we consider the fair value of the company ... we discuss the value with shareholder to agree on a certain range of prices." (F3)

	"We usually sit with the client with a proposal ... presentation ... and workshop to present what is expected from us and the time frame ... and the expectations from other partners in legal and accounting firms ... and advise the clients to be prepared with documents ... in order to accelerate the transaction ... we prepare manuals with all requirements needed by each involved party including the CMA … Clients are provided with weekly reports to state the status quo and progress." (I1)
Due-diligence	"The innovation area to differentiate ... we worked on the quality of financial reporting ... the quality of financial earnings ... This is a very important topic ... we came up with a test that assesses the level or probability of financial manipulation in the financial statements for firms ... other than the fundamentals which we analyse on the quality of financial reporting." (H2)
	"I do valuation ... expectations on the valuation ... on the financial and legal diligence process ... You are going through a diligence process ... anything is unexpected .... this would ruin the whole thing ... here the probability of success will be low ... Talking about capital market transactions ... e.g. IPOs ... Here I see that the probability of success is somewhere between medium to high because it is a process ... once you get into a process of valuation you bid ... start a change ... It's a process ... and it has to do a lot with CMA filing ... regulations ... once you fulfil all these requirements ... you will eventually sell your stocks in the market." (H2)

Source: (the author's fieldwork)

5.2.2.3 Partners Network

Asset management partners include multinational banks, commercial banks, fund-specific partners, and external fund managers. Leading Saudi investment banks are making strategic alliances with multinational banks to widen their offering portfolio and gain client credibility. In addition, commercial banks have been critical partners in managing certain funds. Fund-specific partners are advisory consultants that carryout independent valuations, feasibility studies and fundamental and financial analysis reports. In real estate funds, for example, banks resort to real estate developers and contractors. When an investment bank lacks the capability internally to manage a specific fund, they tend to outsource the fund to an external fund manager.

System provider and commercial banks are the two critical partners for brokerage. The former ensures the running of the system and fixing any glitches. Additionally, the instruments information provided by stock exchange is vital for traders. The latter helps investment banks provide the margin lending particularly when they have affiliation with them.

In investment banking, evidence suggests that many partners are involved including advisory firms (accountancy, law, and due-diligence), underwriters, database providers, and co-arrangers.

Investment banks have strategic partnerships with the independent custodians. They seek this partnership with custodians to bring in the expertise and technology to provide custody services that they are not usually provided internally due to regulatory legislation as the case of investment funds.

Table 5.8 Partners Network for all Lines

Partner Network	Asset Management
Multinational Investment banks	“We've got a tie-up with (Name of global Investment bank) … in private equity … and hedge funds. … so … we partner with them … for other investment products like GCC … we use other investment banks as our custodian.” (G2)
	“The world is happy to invest here … (Name of global Investment bank) runs some of the largest wealth in the world and they do not have a license in the Saudi market … I can make business with this bank in the Saudi market.” (B2)
	“If you are in a real estate project or specialized private equity deal … or in a global equity then you have to have partners … we know the Saudi market very well … we know the regional market very well … we may need an asset manager if we want to venture into a global equity product … emerging market product … Asia product … china product … India product … we are not expert on that … so we need to get the right partner to work with.” (D2)
	“I bring fund managers … today investment banks worldwide look for alliances … big names are willing to make alliances … I can setup with a good reputable institution … to enter capital markets and sell investment products.” (H1)
Commercial banks	" The partnership with commercial bank is vital in real estate funds.”(F1)
	“The treasury of our main shareholder in Bahrain … we are given an excellent and competitive price in Murabaha … CMA has no problem with such deal as long as there is no problem with the subsidiary …” (E1)
Fund-specific partners	“In real estate funds … we need developers to maintain everything related to the project itself … construction and engineering works … technical partners.” (A1)
	“Private equities … we outsource the valuation and the feasibility studies to consulting firms.” (B1)
	“We found strategic partners in real estate funds … they’re very good in developing and executing projects … and we’re experienced in fund management and raising funds.” (D1)
	“In real estate … you need a developer in place … for private equity … you know … look at international firms that specialise in private equity … International and regional firms … and then you partner with them to white-label their products.” (H3)
External fund managers	“In asset management … it's possible to outsource … we can go outsource with sub fund managers who are external … we seek partners in areas where we do not have capabilities.” (A1)
	“We outsource the Real Estate funds by doing development with the contractor … we outsource the technical supervision that does the drawing … inspection … does it all in the technical part … in marketing the real estate product … we outsource to the real estate marketer … packaging and everything … we just manage the funds … we believe that they are suppliers … we manage the funds … but we do not manage the downstream.” (B1)
Partner Network	**Brokerage**
System and Information providers	“We have strategic partnerships with providers … of the brokerage system … new ideas and innovation we are happy to test and we develop with them in order to be distinct in our services … but we look at what is acceptable to the regulatory … the market information as well is provided by ‘Tadawul’ … we have to work with them … Information terminals providers … we need them to provide traders with firms' news and economy analysis.” (H1)
	“We outsource in trading system … the trading system supplier does everything and developments as well … It is our technical partner in Brokerage.” (E1)
Commercial banks	“Brokerage … our commercial bank is the core partner in terms of funding … we get facilities to fund our margin lending business.” (A1)
Partner Network	**Investment Banking**
Advisory firms	“We do work with the certain legal advisor and accounting firm … we have changed them in the past because they did not offer the best prices any more … they were very busy and did not give our client a good rate … we want to build relationships with different firms because the client needs legal services.” (C3)
	“In investment banking … we have to find partners in different areas of consultations … although not our task to appoint them … but we could advise clients to go with one that we know their abilities and experiences and who pushes the work forward … for example … accounting firms … lawyers … due diligence advisor … market research … are needed in IPO to do financial and legal due diligence.”(F3)
	“They are not engaged with us … these are the suppliers engaged with the client directly … so we recommend consultants … Law firms … accounting firms … marketing firms … management consultants … we recommend them but the choice is

	with the client." (G1)
Underwriters and selling agents	"Our competitors in a certain area they are assumed our partners ... for instance … I am doing a deal today in IPO ... I invite them to be underwriters or bookrunners … we have to build relationships with them for many reasons ... for good pricing ... for understanding our approach … and to get invitation from them if they have deals." (I1)
	For example … within the IPO process you need an IT system to connect all the different receiving banks to one bank lead manager … and commercial banks as selling agents … the other issue is to find co-underwriters to underwrite the offer in particular if the financial adviser not big or the offer size is huge." (C3)
Database Providers	"In Database ... you are requiring it ... basically it will help you to do your desktop research ... information terminals ... Bloomberg or Reuters or Zawya … you need these information providers to carry out your job." (H2)
Co-arrangers	"Our Sukuk issuance background is strong … on the basis of this … we work with other AP's to be co-arranger with them ... we have experience that helps us to co-corporate with others and assumes us as a technical partner." (E1)
Partner Network	**Custody Services**
Investment banks	"All around the world there are independent custody firms ... we made a contract with (Name of Investment bank) ... they will bring us the technology and save the hundreds of thousands of salaries ... so instead of getting the job done through internally... it is done through external partner." (D1)

Source: (the author's fieldwork)

5.2.2.4 Distribution Channels

It is crucial to meet face to face with asset management clients when establishing the relationship. Regardless of regulatory requirements, the asset manager needs to understand the client's investment orientations and objectives throughout. Building this relationship through an investment specialist plays a pivotal role in delivering asset management services. Intermediaries such as insurance banks and other investment banks are used to deliver these services. Having established a strong relationship, then online mediums can be used to increase or decrease asset positions and subscribe to an online platform to redeem mutual funds.

In brokerage, clients mainly use the online platform or mobile apps to trade. Most of the investment banks prefer the use of electronic channels because they facilitate the trading process offering clients different options. Investment centres (branches of the investment bank) are still used in some instances for wealthy clients who need trading rooms.

In Investment banking, the nature of the services provided requires face to face meeting with clients. To be effective in closing deals, top management and staff of client firms are interviewed to collect their requirements. Investment banks recommend the advisory firms needed by the clients to close the deal. Investment banks and/or commercial banks are channels used particularly with IPOs.

Account managers are required to deliver the required reports and custody services to companies, financial institutions and investment funds. This service is delivered either through meeting face to face with clients or through online platforms that allow customers to obtain the required reports of assets under custody.

Evidence suggesting these distribution channels are presented in Table 5.9.

Table 5.9 Distribution Channels for all Lines

Partner Network	Asset Management
Multinational Investment banks	"We've got a tie-up with (Name of global Investment bank) … in private equity … and hedge funds. … so … we partner with them … for other investment products like GCC … we use other investment banks as our custodian." (G2)
	"The world is happy to invest here … (Name of global Investment bank) runs some of the largest wealth in the world and they do not have a license in the Saudi market … I can make business with this bank in the Saudi market." (B2)
	"If you are in a real estate project or specialized private equity deal … or in a global equity then you have to have partners … we know the Saudi market very well … we know the regional market very well … we may need an asset manager if we want to venture into a global equity product … emerging market product … Asia product … china product … India product … we are not expert on that … so we need to get the right partner to work with." (D2)
	"I bring fund managers ... today investment banks worldwide look for alliances ... big names are willing to make alliances ... I can setup with a good reputable institution ... to enter capital markets and sell investment products." (H1)
Commercial banks	" The partnership with commercial bank is vital in real estate funds."(F1)
	"The treasury of our main shareholder in Bahrain … we are given an excellent and competitive price in Murabaha … CMA has no problem with such deal as long as there is no problem with the subsidiary …" (E1)
Fund-specific partners	"In real estate funds … we need developers to maintain everything related to the project itself … construction and engineering works … technical partners." (A1)
	"Private equities … we outsource the valuation and the feasibility studies to consulting firms." (B1)
	"We found strategic partners in real estate funds … they're very good in developing and executing projects … and we're experienced in fund management and raising funds." (D1)
	"In real estate … you need a developer in place … for private equity … you know … look at international firms that specialise in private equity … International and regional firms … and then you partner with them to white-label their products." (H3)
External fund managers	"In asset management … it's possible to outsource … we can go outsource with sub fund managers who are external … we seek partners in areas where we do not have capabilities." (A1)
	"We outsource the Real Estate funds by doing development with the contractor … we outsource the technical supervision that does the drawing … inspection … does it all in the technical part … in marketing the real estate product … we outsource to the real estate marketer … packaging and everything … we just manage the funds … we believe that they are suppliers ... we manage the funds … but we do not manage the downstream." (B1)
Partner Network	**Brokerage**
System and Information providers	"We have strategic partnerships with providers ... of the brokerage system ... new ideas and innovation we are happy to test and we develop with them in order to be distinct in our services … but we look at what is acceptable to the regulatory … the market information as well is provided by 'Tadawul' ... we have to work with them ... Information terminals providers ... we need them to provide traders with firms' news and economy analysis." (H1)
	"We outsource in trading system ... the trading system supplier does everything and developments as well ... It is our technical partner in Brokerage." (E1)
Commercial banks	"Brokerage … our commercial bank is the core partner in terms of funding … we get facilities to fund our margin lending business." (A1)

Partner Network	Investment Banking
Advisory firms	“We do work with the certain legal advisor and accounting firm … we have changed them in the past because they did not offer the best prices any more … they were very busy and did not give our client a good rate … we want to build relationships with different firms because the client needs legal services.” (C3)
	“In investment banking … we have to find partners in different areas of consultations ... although not our task to appoint them ... but we could advise clients to go with one that we know their abilities and experiences and who pushes the work forward ... for example … accounting firms … lawyers … due diligence advisor … market research … are needed in IPO to do financial and legal due diligence.”(F3)
	“They are not engaged with us ... these are the suppliers engaged with the client directly … so we recommend consultants … Law firms … accounting firms … marketing firms … management consultants … we recommend them but the choice is with the client.” (G1)
Underwriters and selling agents	“Our competitors in a certain area they are assumed our partners ... for instance … I am doing a deal today in IPO ... I invite them to be underwriters or bookrunners … we have to build relationships with them for many reasons ... for good pricing ... for understanding our approach ... and to get invitation from them if they have deals.” (I1)
	For example … within the IPO process you need an IT system to connect all the different receiving banks to one bank lead manager … and commercial banks as selling agents … the other issue is to find co-underwriters to underwrite the offer in particular if the financial adviser not big or the offer size is huge.” (C3)
Database Providers	"In Database ... you are requiring it ... basically it will help you to do your desktop research ... information terminals ... Bloomberg or Reuters or Zawya … you need these information providers to carry out your job." (H2)
Co-arrangers	“Our Sukuk issuance background is strong … on the basis of this … we work with other AP's to be co-arranger with them ... we have experience that helps us to co-corporate with others and assumes us as a technical partner.” (E1)
Partner Network	**Custody Services**
Investment banks	"All around the world there are independent custody firms ... we made a contract with (Name of Investment bank) ... they will bring us the technology and save the hundreds of thousands of salaries ... so instead of getting the job done through internally... it is done through external partner." (D1)

Source: (the author's fieldwork)

5.2.3 Human CAPITAL

5.2.3.1 Organisational Learning

There is a well-known term in financial institutions named the "Chinese Wall” that refers to arrangements and barriers must be placed among different business lines within an institution to prevent the exchange of information, avoid conflicts of interest and keep clients' data confidential. Because of the 'Chinese Wall' between the different investment bank lines, learning from different business line is managed with caution. Any actions that breach protocol in reference to knowledge, data and/or experience could lead to serious consequences leading to losing licence to operate in the Saudi market. Thus, investment banks are keen to have a supportive work environment where knowledge is shared among different lines without breaching protocol. Due to the scarcity of qualified professionals and a highly competitive industry, most investment banks ensure that the knowledge and experience possessed by a particular employee has been transferred to other employees as a resilience mechanism so that when one employee leaves, the investment bank is not left in a vulnerable position. This could also be done by maintaining policy and procedures manuals up to date. Table 5.10 highlights quotations from senior managers on organisational learning for all lines.

Table 5.10 Organisational Learning for all Liness

Organisational Learning	Selected Evidence
Supportive work environment	"We are trying to improve the work environment … It is very important to have an encouraging environment … good relations among managers and employees make this teaching and learning process spontaneous." (D1)
Knowledge transfer and sharing	"Transferring the expertise among staff is essential ... you follow them on daily basis to make sure that what has been learnt in the past is transferred to the other levels of employees ... we should learn from our mistakes." (F2)
	"We made a knowledge centre that combines economic … financial … political indicators … and everything is put in a shared knowledge centre … so all could read and discuss." (B1)
	"We made an email called 'ideas' that goes to product development from all … we get ideas that could help the company and change the business model." (B1)
	"We have sort of a private email where people can send their ideas." (D1)
	"Emails are powerful tools to exchange knowledge." (I3)
Meetings	"In the process of administration … we are responsible for this in a weekly executive committee meeting ... agenda ... key development ... business issues ... opportunities ... taking into account the Chinese wall is not breached." (H1)
	"We have presentation meeting … we talk about new ideas … approaches … trying to bring people together ... that is how we do it." (C3)
Policy and procedure manuals	"Almost every department has a manual ... every year we need to update this manual ... manuals for policies and related procedures explain the mechanism we use … from the beginning of the study of the investment product to almost the liquidation of the product ... through the process of incorporation ... the sale process ... the process of management ... any product has a loop ... we have a cycle." (F2)

Source: (the author's fieldwork)

5.2.3.2 Skills and Competencies

Fund managers have to attain the required professional qualifications and be competent in financial analysis. These managers will only establish trust with clients if they portray a level of professionalism and competency in providing the analysis needed for clients to make decisions about investments. Additionally, experienced asset managers with a successful track record in managing funds help to attract investors to buy or subscribe in investment products.

In addition to experienced brokers, technical support has been suggested to be critical for brokerage since all of the activities are reliant on the trading platform.

To be able to execute financial transactions such as IPOs and M&As, investment bankers need professional qualifications, financial analysis, and teamwork. As it only has back-office operations, custody services do not require particular expertise. Staff in this line needs experience in operation.

Evidence on skills and competencies for all lines is presented in Table 5.11.

Table 5.11 Skills and Competencies for all Lines

Skills & Competencies	Asset Management
Experienced asset managers	"If you have a strong team ... committed team ... professional team ... Experienced asset managers ... this what would actually sell in the market ... building the track record in the industry ... it's mainly service ... people who are working on it ... and performing core functions and executing." (H2)
	"Fund managers ... you have to be careful when hire them ... you have to look at people who have track record." (F1)
Professional qualifications	"finance and accounting qualifications are needed ..." (D2)
	"In asset management ... definitely ... It is the discipline of individuals and processes ... the performance of funds ... people are the number one asset that you need to retain and develop to achieve and outperform everyone in the market." (H1)
	"So It is a big factor to have someone qualified ... well trained." (B1)
Mastering financial analysis	"In asset management ... number one is human capital ... It's all done by human capital ... everything else is very secondary ... because ... our business is basically trying to predict the future... when you're buying equities ... you need asset managers who have the financial analysis tools ... are able to work actively." (G2)
	"In the department ... we have the research team ... we always hire those who specialize in finance ... and have experience in research houses ... and have financial analysis tools with professional qualifications ... they are needed to meet the job requirements ... In product structuring too ... we look for people who have experience in investment product structuring and design." (C1)
	"Responsive and research skills ... analytical skills ... all is required." (D2)
Skills & Competencies	**Brokerage**
Experienced brokers	"Because the market requires certifications from CMA ... Staff in brokerage should pass the CMA exam ... brokers should be experienced to execute traders order ... " (C2)
Technical Support	"In brokerage ... you have to have a technical support team to maintain the trading system ... they have the ability to deal in times of system downtime" (C4)
Skills & Competencies	**Investment Banking**
Experienced investment banks	"People 100% ... we do not sell machines ... we mainly sell professional's hours ... human resources basically ... highly experienced investment bankers ... and excellent people ... they can make your business grow faster ... as they know the industry ... but usually these people are very expensive." (C3)
Professional qualifications	"Regarding education ... first we need a team all have master degrees and at least they all have CFA level 1 or level 2 or CFA level 3 candidates ... professionals ... they know what they are saying ... credentials ..." (H2)
	"We hire people ... they are skilled and experienced ... they have culture ... we hire fresh graduates ... we train them and they become professionals ... the issue with a small team is when you hire fresh graduates ... you spend a lot of time training them." (I1)
Mastering financial analysis	"You have to have ... analytical skills ..." (C3)
	"We are working on companies with hundreds of million or billions ... you need people with experience ... local and international experience ... mastering financial modelling ... you need people who know what they do." (C3)
	"What are the methodologies used by the professional players." (H2)
Teamwork	"We are using all bank capabilities globally to build and perform transactions in investment banking specifically ... take benefit of our teams globally." (J1)
	"You have to have ... on the basis that it is teamwork ... all work together ... we have deadlines ... we need to work with client until 1 am." (C3)

Skills & Competencies	Custody Services
Experienced staff	"We have two groups ... we have fresh graduates and experienced professionals ... a new graduate works with the experienced professionals ... to gain the experience required to do the job properly." (I1)

Source: (the author's fieldwork)

5.2.3.3 Incentives

Investment banks have standards they apply across lines regarding incentives, which could either be financial or non-financial. Financial incentives come in the form of sales commission's performance bounces and non-financial incentives are career development activities. To increase fund performance, fund managers are incentivized based on performance of their funds.

In Brokerage, trading commission is used to incentivise brokers. The purpose of this incentive is to foster the correct execution of orders and avoid misconduct. For investment banking, bonuses are based on deals being secured. In custody business line, the incentives are linked to the quality of work and outcomes.

Table 5.12 provides evidence from senior executives of several investment banks

Table 5.12 Incentives for all Lines

Incentives	Asset management
Sales commission	"Incentives ... Investment banks have various polices ... each line of business should have varied incentives ... in asset management there are sales commission and reward for funds' performance." (D3)
	"To motivate our sales team in particular real estate funds ... we encourage them through giving them 100% of subscription fees in the first month ... 75% in the second month ... and then 25% afterwards as sales commissions." (F1)
Performance bonus	"Bonus depends on your performance and investment products' performance ... your promotion depends on your performance ... all of which are in the KPIs sent to the management ... I put my recommendations."(G3)
	"We launch investment products ... we offer some incentives to the employees so this is immediately paid cash." (D3)
	"Bonus based on the performance related to company profitability" (H1)
	"How to attract clients is another plan that encourages all staff to establish more business relationships to achieve better incentives." (H1)
Career Development	"One of the first lists we have made were the incentives policies in marketing ... and funds' performance rewards ... and it is very generous ... In addition ... incentives should not be financial ... It might be development and career growth." (B1)
Incentives	**Brokerage**
Trading commission	"You aim to motivate sales in brokerage ... we motive brokers through trading commissions." (I1)
Incentives	**Investment Banking**
Closing deals bonuses	"In investment banking ... It is an incentives game.... the more they are given ... the higher the success rate of the deal ... we have an incentive structure clear for all." (F3)

	"Our bonuses … we are incentivised … so if we make more money we get paid more … It is based on our performance as managers and team performance … the company's overall performance." (G1)
	"In M&A deals for instance ... staff are compensated ... compensations based on exiting deals ... how much money they made ... how much they got ... they are paid a significant portion from the deal ... you ensure that the team do their best to maximize shareholders value." (H2)
Incentives	**Custody Services**
Fixed bounces	"In operation side … for instance in custody service … we try to motivate staff via fixed incentive for each form or document that has been filled out properly." (I2)

Source: (the author's fieldwork)

5.2.3.4 Training

Training policies are managed centrally by the investment bank. The importance of training in this industry is linked to two main factors. The first is that continuous training helps employees to absorb new services and develop current investment products in accordance with best practices. Second, the development of new investment products, especially if they have a complex structure, requires training to enable employees to absorb the dimensions of the new product. Most investment banks require their employees to take externally paid training courses annually or are given free training hours instead. They all mentioned this as a pillar for the industry due to the nature of capital markets and its dynamism, which requires employees to be always up-to-date.

For asset management and investment banking business lines, training is either required by the bank to deliver specific services, or could be delivered internally through employees that acquired the know-how of a particular service. Table 5.13 provides the evidence for both types of training.

For the other lines, senior managers did not report any training requirements. It seems that brokerage and custody services do not need advanced or specific training to perform functions taking into consideration that IT systems play a vital role in these lines.

Table 5.13 Training for all Lines

Training	Asset management
Required training	"For business analysis ... the training is given for technical analysis and fundamental analysis … analysing the equities for Saudi Fund." (B2)
	"Each asset class or investment product needs certain knowledge … the training is a must if these investment products are new for us." (F2)
	"Most of the courses are related to portfolio management … finance analysis and things that are related to the department." (C1)

	"As a manager ... I try to motivate employees by attending training ... training courses are based on demands and on department's needs." (C5)
On-the-job training	"Training on the job is better than courses ... you have to show the staff how to analyse stocks ... sell and buy ... and give them the asset management approach and process ... this kind of training will not be given by any courses." (D1)
	"On-the-job training is a must in the industry especially in asset management ... the capital markets are dynamic ... you have to make sure that the employee knows how to deal with it ... It is difficult to give someone a fund to manage it without training him to manage it ... according to the asset managers approach ... each asset manager has their own investment strategy." (F2)
Training	**Investment Banking**
Required Training	"... but we have to bring in lecturers to give them bespoke training in particular areas." (G1)
	"Training is essential ... the advanced courses in accounting and finance." (F3)
On-the-job Training	"Building the capabilities and getting the knowledge from real life cases is better than from courses." (F3)
	"Most of the training is on the job ... but we have to bring in lecturers to give them specialised training." (G1)

Source: (the author's fieldwork)

5.2.4 FINANCIAL VALUE

5.2.4.1 Revenue Streams

In asset management, revenues are generated through three models: fee-based model, performance-based model, and sharing-based model. Investment banks choose one of these revenue streams depending on investment products categories, time, target investors, and the track record of the asset manager.

Financing brokerage model and discounted fee brokerage model are the two revenue streams used in the brokerage business line. The former relates to margin lending and the latter relates to applied discounts. With regard to margin lending, finances are given to customers in order to increase trading volumes and to take advantage of lending interests. Because brokerage commissions are set and fixed by the regulator and the stock exchange, the only way to attract active clients is to apply more discounts.

In investment banking, revenue streams include fixed fees, transaction-based fees, and success fees. A few banks apply fixed fees or a percentage (transaction-based fees) for investment banking services. The largest revenue stream is through success fees. These fees are agreed with clients prior to the transaction and only apply if the transaction is successful.

Senior executives did not mention any revenue models for custody services. There is a common revenue model in this business line of business centred on fixed-fees and therefore investment banks may not have changed this approach.

Evidence for each revenue stream is presented in Table 5.14.

Table 5.14 Revenue Streams for all Lines

Revenue Streams	Asset management
Fee-based model	**Subscription fees:** "Subscription fees are totally different ... In subscription fee what happens is that it basically is that the model really depends on who the client is ... when it's a retail product ... your subscription fees are relatively fixed ... whatever level you fix them at ... they don't really move a lot". (G2)
	Management fees: "First ... we get subscription fees form the subscribed amount ... It is an upfront fee ... management fees are discounted from the fund itself based on the net asset value ... subscription fees are a one-time fee... whereas management fees are recurring and their value depends on the growth in the net asset value." (C1)
	Redemption fees: "Usually the investment products pricing does not require a model ... there is an international standard ... we are talking about fees here ... you make a product and you assign an attractive price for your clients ... fees include ... subscription fees ... redemption fees ... management fees." (D1)
	Placement fees: "Yes in fees ... we have a manual ... a fee and pricing policy ... for each fund depending on the size and type ... we have structures either subscription fees ... management fees ... placement fees in private equities." (B1)
	"Regarding our fees ... we try to be fair to the client and ourselves ... we compare our effort with the fees that we take from the fund itself." (C1)
Performance-based model	"In asset management ... fees and revenue models differ ... because it is the global understanding ... for example ... placement fees ... the performance fees ... the management fees ... etc. ... you need to make sure that your customers make money more than others ... your fees are costs for customers." (A1)
	" ... or performance fees ... equities fund 1% to 1.5% subscription fees ... 1 to 2% management fee ... for real estate 1.5% to 3% subscription fees ... It depends on the nature of the project and investment opportunity." (B1)
	"We have a certain revenue model ... fees-based method ... for every 100 million we have 1 to 0.85% management fee ... a client with over 100 million is required to pay 85 base point ... the performance is only taken from portfolios of less than 100 million ... it is about 10% of performance ... management fee on a daily basis according to the net assets' value." (B2)
	The fees are put based on investment products ... management fees ... performance fees ... subscription fees." (F1)
Sharing-based model	"In certain investment products ... for instance private equity funds ... the revenue and fees mainly comes from the exiting strategy such as IPO when fund manager get fees ... called ... profit participation right." (D1)
	"We work in a different way ... in asset management ... the fact is that the investment products are international .... and our asset management is offshore ... we have revenues associated with the marketing commissions of the investment products we sell internally ... so that the revenue model is not a performance fee or subscription fee ... but sharing fees as commissions for marketing investment products." (J2)
Revenue Streams	**Brokerage**
Financing brokerage model	"For example ... another bank provides equally good service with better margin in financing options ... Investors are not loyal ... they will go for a better margin rates ... they will go for a better return ... so these banks focus on margin lending as a core revenue line ... not trading commission. " (D2)
Discount brokerage model	In the brokerage business ... heavy traders ... low traders and rare traders ... you give them discount of commissions differently ... but you make more money than others ... high volumes of trades compensate discounts." (A1)
	"Basically I can be 5% market share or 10% market share ... but I am offering every one 95% discount ... so large customers will come to me ... but In the bottom line I am not doing very well ... It is important to look at the market share but what is far more important is how much money you make from traders." (C2)

	"In brokerage ... traders' turnover is important ... our model is built on that ... the more discount you offer ... the more you trade" (E1)
Revenue Streams	**Investment Banking**
Fixed fees	"Sometimes it's a flat fee ... depending on the kind of transaction ... usually in studies and consultations." (G1)
	"or upfront fees ..." (H2)
Transaction-based fees	"sometimes its percentage ... sometimes it's a target-driven percentage ... sometimes based on certain price ... we get x percentage ... above that price we get y percentage etc. ... so we structure it differently." (G1)
	"there is a Lehman model ... tranches ... each tranche linked with a certain percentage." (H2)
Success fees	"We structure our fees according to each line of investment ... I get paid if the transaction is successful ... we call it 'success fee' based on the deal size ... unlike the consulting firms whose most of the work is fixed fees ... we try it to put the success rate based on the deal value ... when the firm value rises your fee is raised ... or based on tranches." (F3)
	"Success fees ... we have a certain model we follow ... we have fees ... 80% of the fees I am only getting it if it is successful ... we are flexible with certain clients ... when I see the risk I increase the 20% ... to 40% for instance." (C3)

Source: (the author's fieldwork)

5.2.4.2 Cost Structure

In asset management, costs include regulator, salaries and compensations, advisory services, general admin, and marketing costs

In brokerage business line, costs include IT, advisory services, stocks exchange, regulator, and funds costs. IT costs represent the largest share of the cost structure since this business line depends on maintaining the operation of the trading platform. Another cost is attributed to the fund through margin lending.

In investment banking, the major costs are advisory services, and salaries and compensations. For each transaction, external parties involved will apply fees accordingly. For example, in an IPO transaction, costs include professional services fees, book runner, lead manager and advisor financial fees, underwriting fees, marketing, printing & distribution expenses, agents selling and consulting companies' fees. Senior managers did not mention any evidence regarding costs for custody services.

Table 5.15 provides some supporting evidence

Table 5.15 Cost Structure for all Lines

Cost Structure	Asset Management
Regulator Costs	"The main costs are ... regulator fees ... the licenses of funds ... annual fees ... supervision fees ... " (E1)
	"... the regulator fees which include ... investment product fees ... annual fees ... and submission fees ..." (C5)
Advisory services costs	"... there are other fees we should pay such as professional fees for studies and analysis." (C5)

Salaries and compensations	"As asset management ... you take into consideration the payments of your employees' salaries including new hiring ... costs are fixed in nature." (C4)
	"... In addition to staff costs and ..." (E1)
	"Our main costs are the department's cost ... the human resources" (C1)
	"Approximately 65% ... salaries ... wages and the HR ... but the biggest part goes for salary and HR ... these costs are evident in asset management." (B1)
General admin costs	"... the other 35% is spread on the general admin expenses ..." (B1)
Marketing costs	"In addition to ... and marketing expenses." (E1)
	"Marketing takes 15% ... usually taken from subscription fees." (B1)
Cost Structure	**Brokerage**
IT costs	"Brokerage is the trading system ... so the costs are mainly IT and IT support ..." (E1)
	"Most costs belong to the brokerage ... people and IT costs %90 ... brokerage line is more costly among other lines ... as operational costs." (D1)
	"For us ... usually ... manpower ... rent and IT systems ..." (C2)
Funds costs	"... Cost of funds is important as we use money to get margin lending." (C2)
Stocks exchange licences	"... Subscription and licences fees paid to Tadawul for Market Information ..." (E1)
Regulators' costs	"... And regulator's and stocks exchange participation in trading commissions." (E1)
Cost Structure	**Investment Banking**
Advisory services and underwriting costs	"... legal is mostly semi fixed based on fixed hour rate but the required hours are estimated ... and the auditors are fixed means that if you have a transaction of 10 million or 100 million is the same ... feasibility study is fixed ... underwriting is variable subject to size and offering price ... usually they get 1% of offering price ... the financial consultant fees ... usually linked with offering size ... financial due diligence is done at a fixed price." (I1)
Salaries and compensations	"We have fixed cost structure in the team ... we always try to keep the team small as much as we can ... in my team there is only five people ... we work very hard ... our cost is almost the same it may increase one person or less one person ... it is fixed however the margins we make in these deals in investment banking ... millions each deal ... so we can cover our cost from the 20%." (C3)
	"Cost structure in corporate finance department ... only the employees' salaries ... rent ... bonuses and commissions ... It is the case in most financial firms." (B3)
	"We sell professional hours ... so my direct cost is basically the employee salaries ... and benefits that's my cost ... then rental which is sharing location with people." (C3)

Source: (the author's fieldwork)

5.2.4.3 Cash-flow

The regulator evaluates the capital adequacy of investment banks. This is done through verifying sufficient liquidity levels within current risk levels in the operational environment and financial stress scenarios. This will allow banks to plan future capital and have a strong capital base to run all lines comfortably.

In asset management, fees collection is an important task for banks that are not commercial bank affiliates. In delivering services such as DPM, investment banks do not have the authority to deduct due fees from clients' accounts and can only collect fees on monthly or quarterly intervals. Another important activity in cash-flow is tracking liquidity.

This is done to prevent liquidity deficit arising from consecutive withdrawal requests from investors.

In brokerage services, transaction fees and margin lending payments are the two cash-flow activities. With the trading platform, all transaction fees can now be deducted at the time of transaction. However, with margin lending, brokers have to follow up with clients who have delayed payments or pursue legal actions if they are unable to pay.

Investment banks have to collect payments from clients after closing deals. Many investment banks attempt to split off transactions or consultations to different phases so that fees are collected at each stage before moving on to the following stage. Customer may fail to make the payment due to their dissatisfaction with the financial evaluation. This issue is less prevalent in IPOs for example as escrow accounts are developed, where the investment bank does not release the selling amount unless payment is made in full.

Senior executives did not report any evidence relating to cash-flow for custody services. Fees collection may not represent a challenge for Investment banks to change the cash-flow activity in this line.

Table 5.16 provides selected evidence on cash-flow

Table 5.16 Cash-flow for all Lines

Cash-flow	Asset Management
Fees collection	"We have a problem … the reason is because we are an independent investment bank not like an affiliate firm of commercial banks … performance fees are taken directly according to the contract ... we manage funds for client worth 600 million ... so I make quarterly bills ... I do not have any authority on their bank accounts to deduct fees ... It is risky if the clients does not transfer the money ... we will have legal complications … we try to change billings to monthly." (B1)
Liquidity tracking	"In asset management ... I am concerned with the cash flow for the subscription and redemption of investment funds we manage … If there are high redemptions of units … this will impact the fund liquidity … we try to manage this issue though terms and conditions ... in which clients should give 3 to 5 working days to redeem their funds ... I have to track liquidity on a daily basis." (C1)
	"It would matter depending on investment products … If it is a real estate development product … then definitely before even getting into the fund structure ... I need to ensure we have the needed cash flows." (D1)
Cash-flow	**Brokerage**
Trading commissions	"In brokerage … there is no problem with revenue cash flow... we take it ahead from the transactions made by clients … but the matter is how to manage the collaterals in which some clients are given margin lending …we have to make sure that coverage of facilities are in place … otherwise there will be a problem to repay the margins and impact on firm's liquidity." (C2)
	"Brokerage ... originally fees are discounted at the time of execution of the transaction ... which is calculated as the cost on clients …" (E1)

Margin lending payments	" ... In fact the issue is related to the cash flow to fund the margin lending and how to make sure collaterals are covered the lending to secure the inflows." (E1)
Cash-flow	**Investment Banking**
Payment collection	"We manage this issue in arranging ... we should be paid a certain amount every month just to cover costs ... but at the end we will get the success fee ..." (G1)
	"... in IPO there is no problem since there is an escrow account in which we deduct our due fees directly from deal amount before the money goes back to the company or the selling shareholders ... but in other transactions not." (G1)
	"The advantage we have only in IPOs is ... we have an escrow account I release the escrow account when I deduct my fees." (I1)
	"Sometimes in consulting services ... there is a problem when the service is provided to the customer ... the consultation is given based on the signed agreement with customers ... After delivery of the service or study file ... some customers do not want to pay because either the evaluation did not fit them or just procrastination .. in this case ... you have revenue but the cash flow was not collected ... the issue becomes worse if there is a success fee." (F3)
	"The problem in corporate finance and investment banking is arranging and advising fees ... we have to follow up with clients and CFO's ... invoicing and collection ... it takes a long time to collect the due amount ... to minimize the risk ... we try to divide the deal into parts and phases with down payment in advance ... last payment is due when the task is done ... each phase has its own fees." (E1)

Source: (the author's fieldwork)

5.2.4.4 Margins

Investment banks ensure that financial products are profitable for both investment managers and clients. If the investment product has a low profit margin (for example money market funds), then, changing the margin model directly affects investors' profitability. There is more than one approach used by investment banks to model their margins including market-based, cost-based, and product based models..

If an investment product is distinct from what is available in the market and it is not available in terms of return, performance, and asset class, then market-based model is applied by the investment bank. Margins here are based on the differentiation this product brings to the market. Cost-based models are applied to new investment products. In that, investment banks attract clients by only covering the costs of the new product until this new product achieves margins over a period of time. It should be noted that the management of investment products is sometimes congruent with economies of scale or volume. The management of an investment fund in a particular asset class requires the same efforts in terms of planning and execution whether large or small funds. If the size is large, the bank is able to apply product-based model by adjusting the fees.

In the brokerage business line, margins are either cost-based or volume-based. Cost-based model is used to calculate the margin spread based on margin lending risks, timing, and collaterals. Because of using trading platform, costs are almost zero and banks are opting for volume-based models. It is worth noting that trading commissions are defined by the regulatory body in which each part (stocks exchange, regulator and broker) gets certain percent from trading commissions.

Senior executives did not report any evidence relating to margins for custody services. Profit margins in this business line may be limited, so banks rely on economies of scale to provide services to the largest possible base of customers and expand portfolio of assets under custody.

See Table 5.17 for selected evidence on margins for all business lines.

Table 5.17 Margins for all Lines

Margins	Asset Management
Market-based model	"In many investment products ... fees and pricing are almost fixed ... it is market-based fees ... thus you should consider the probability rather than fees rate ... costs and fees will be the variables." (D3)
	"The market takes 1% subscription fees ... 1.5% management fees or whatever... so it is the asset management's responsibility to check the market ... at least matches the market." (C4)
	"Usually when calculating management fees ... what price you should put to determine profit margins we could realize ... you should not be higher or lower than average ... especially if the investment products are standard ... when a client comes and notices that management fees are high ... he compares with the lower management fees and subscription fees ... so you must be going on with the market." (C5)
	"Our fees and pricing we try to make it competitive ... I mean ... for some prices you may not be able to count them in accordance to the targeted income ... maybe the volume is what matters ... however ... if you were to raise it 25% over the market average fees ... you will be out of competition." (B1)
	"We calculate costs and our profits from each product ... In order to come up with a new product ... Big banks raise the management fee to 2% or 3% according to investment products types ... In order to attract clients ... I have to reduce fees until I build trust with the client and then I can raise the fee gradually ... the target customers and risks are factors to determine fees." (D1)
	"We could face loss according to the market ... Periods like 2008-2009 did not have great performance because the market was bad in general ... usually costs are fixed in nature ... therefore ... you have to identify what profit you want ... or based on profit margins in the industry ... In order to control your costs or put pricing." (C1)
	"You should put fees probably less than the market to attract the customer but definitely not higher than the market in only one situation ... you are doing the best in the market ... you will ask for a premium ... in terms of kind of products ...the process ... the performance." (D2)
Cost-based model	"How do you first acquire market share ... this requires very low margins based on our costs ... even sometime no profitability ... and then afterwards we think how to adjust the pricing to increase the profit." (H1)
	"... this is linked to the pricing approach ... if the investment product is standard ... you will depend on market-based profit margin and pricing ..." (F2)
Product-based model	"Profit margin for each investment products can be put in different ways ... depending on the differentiation of investment products ... but if your product is distinct ... you will calculate your costs and put the profit margin you desire." (F2)

Margins	Brokerage
Cost-based model	"Margins lending … basically this is one of the issues … margin lending means that there is a net margin between our cost of fund and the margin lending rate given to traders … Investment banks should calculate their spread margin correctly … since other factors are considered such as risks ... timing ... collaterals." (C2)
	"Do you really want to hold on to the top position in brokerage as market share ... or you need to hold on to the profitability ... having a big market share does not mean you are making profit …." (H1)
Volume-based model	"For us ... It is important to look at the market share ... but ... what is far more important is how much money you make ... In brokerage .... the commissions are determined by the regulator ... all we can do is to give discount from the maximum commissions applied by CMA ... so focusing on profits margins is crucial ... it is economy of scale ... low margins with high volume ... what margins you require." (C2)
Margins	**Investment Banking**
Competition-based model	"In our department ... we cannot penetrate certain margins ... we have to be realistic when forecasting the profitability for each transaction ... tenders are asked by clients ... what are competitors prices ... clients are usually affected by price element." (G3)
	"It definitely matters the subject of margins ... very interesting ... but I think it's always important to focus on fees ... on revenues you make... yes it is associated with variable costs ... we send offers based on our competitors' prices." (H2)
High-margin model	"Our margins are extremely high so we have a fixed cost structure in the team ... we always try to keep the team small as much as we can ... we should consider the provided value ... our margin is high because we sell professional hours." (G3)
	"In IPO ... the bank's fee is a portion of total IPO costs ... the bank's fee portion will vary probably between 5% to maybe 2% maximum ... the profit margin in such deal is high ... we put offers based on the desired margin ... there is a differentiation in services ... the margin guides the price ... not the price determines the margin ... our cost base is relatively low ... We have 13 people ... we don't need to make that much money to cover our costs ... market positioning we care about a lot ... we go after big and complicated transactions and we want to do a good job with high margins." (G1)

Source: (the author's fieldwork)

5.2.5 INVESTMENT BANKS' MULTIPLE BUSINESS MODELS

From mapping the investment banks' business models, a business model emerged for each investment bank business line. Each business model constitutes specific activities related to the business line. Evidence provided earlier has been collated to show the multiple business models of an investment bank. Additionally, In order to map investment banks' business models, the secondary data were reviewed to boost and confirm the interviews primary data or find activities were not mentioned by participants related to Investment products and services, financial performance, operational information, financial information and human capital information. Table 5.18 shows the different activities for each line's business model components. This confirms that investment banks manage multiple business models (a business model for each business line).

Table 5.18 Investment Banks' Multiple Business Models Map

Component	Activities	Asset Management	Brokerage	Investment Banking	Custody Services
Value Proposition	**Core Offering**	○ Asset management solutions ○ Innovative investment products ○ Portfolio of investment products ○ Niche investment products ○ White labelling and world-class investment products	○ Accessing financial instruments ○ Accessing markets ○ Accessing advisory services ○ Underwriting service ○ Providing specific services	○ Portfolio of investment services ○ Niche services ○ Advisory services	○ Providing all custody services ○ Providing custody as an extra service
	Customer Needs	○ Investment performance track record ○ Transparency and advice ○ High-returns, risk profile and time horizon ○ Customised services	○ Efficient trading platform ○ Margin lending ○ Complementary services	○ Service quality ○ Transactions record ○ Timeliness	○ Independency ○ Efficiency ○ Reports and valuations (1)
	Target Customers	○ Corporations ○ Governmental institutions ○ Financial institutions ○ High net-worth individuals ○ Retail investors ○ Portfolio-value-based investors ○ International Investors (2)	○ Financial institutions ○ Trading-value-based clients ○ Active daily traders ○ Sharia-compliant clients ○ Retails traders (3) ○ International Investors (4)	○ Corporates ○ Governmental institutions ○ Transaction value-based clients ○ Family business (5)	○ Corporates ○ Financial institutions ○ Governmental institutions (6) ○ International Investors (7)
	Perceived Customer Value	○ Updating clients ○ Subscriptions and redemptions movements ○ Monitoring customer feedback	○ Investment portfolio transactions ○ Monitoring customer feedback	○ Direct communication (Meetings)	○ Direct communication (Meetings)
Operational Value	**Key Assets**	○ Asset management system	○ Brokerage system ○ Liquidity		○ Custody system ○ Vaults
	Key Process	○ New product development ○ Compliance and approval ○ Execution and monitoring ○ Risk management	○ Margin lending ○ Collaterals and risk management ○ System recovery	○ Regulator's process ○ Valuation ○ Due-diligences ○ Risk management (8)	○ Risk management (8) ○ Special-purpose entities (9)
	Partners Network	○ Multinational banks ○ Commercial banks ○ Fund-specific partners ○ External fund managers	○ System and Information providers ○ Commercial banks	○ Advisory firms ○ Underwriters and selling agents ○ Database providers ○ Co-arrangers	○ Investment banks
	Distribution Channels	○ Investment bank employees ○ Intermediaries ○ Online	○ Online ○ Mobile ○ Direct calls ○ Branches	○ Investment bank employees ○ Commercial banks ○ Investment banks and/or investment funds ○ Brokerage distribution channels	○ Investment bank employees ○ Online

Human Capital	**Organizational Learning**	○ Supportive work environment ○ Knowledge transfer and sharing ○ Meetings ○ Policy and procedure manuals			
	Skills & Competences	○ Experienced asset managers ○ Professional qualifications ○ Mastering financial analysis	○ Experienced brokers ○ Technical support	○ Experienced investment banks ○ Professional qualifications ○ Mastering financial analysis ○ Teamwork	○ Experienced staff
	Incentives	○ Sales commission ○ Performance bonus ○ Career Development ○ Stock options (10) ○ Savings and benefit schemes (11)	○ Trading commission ○ Stock options (10) ○ Savings and benefit schemes (11)	○ Closing deals bounces ○ Stock options (10) ○ Savings and benefit schemes (11)	○ Fixed bounces ○ Stock options (10) ○ Savings and benefit schemes (11)
	Training	○ Required training ○ On-the-job training ○ External training (12)	○ External training (12)	○ Required training ○ On-the-job training ○ External training (12)	○ External training (12)
Financial Value	**Revenue Streams**	○ Fees-based model ○ Performance-based model ○ Sharing-based model	○ Financing brokerage model ○ Discount brokerage model	○ Fixed fees ○ Transaction-based fees ○ Success fees	○ Fixed fees (13) ○ Net-asset value-based fees (14)
	Cost Structure	○ Regulator costs ○ Advisory services fees ○ Salaries and compensations ○ General Admin costs ○ Marketing costs	○ IT costs ○ Funds costs ○ Stocks exchange licences ○ Regulators' costs	○ Advisory services and underwriting costs ○ Salaries and compensations	○ IT costs (15)
	Cash-flow	○ Fees collection ○ Liquidity tracking	○ Trading commissions ○ Margin lending payments	○ Payment collection	
	Margins	○ Market-based model ○ Cost-based model ○ Product-based model	○ Cost-based model ○ Volume-based model	○ Competition-based model ○ High-margin model	○ Volume-based model (16) ○ Competition-based model (17)

Source: Developed by (the author)

(1) The Investment bank's annual report showed that the reports and valuations are needed by securities and funds custody services' clients (Investment Bank F, 2017).
(2) The Investment bank's annual report showed that International investors are targeted by asset management (Investment Bank B, 2017; Investment Bank G, 2017).
(3) Investment bank's annual report showed that the retail traders regardless the portfolio size or trading volume are targeted by brokerage services (Investment bank E, 2017; Investment bank F, 2017).
(4) The Investment bank's annual report showed that International investors are targeted by brokerage services (Investment Bank A, 2017; Investment Bank G, 2017; Investment Bank J, 2017).
(5) The Bank's annual report stated that the private and family business are targeted by investment banking services for IPO's transactions and listing in the secondary markets (Investment bank A, 2017; Investment bank C, 2017a; Investment bank G, 2017).
(6) The Investment bank's annual report showed that governmental institutions such pension funds are targeted by custody services (Investment Bank F, 2017, Investment Bank G, 2017).
(7) The Investment bank's annual report showed that International investors are targeted by custody services (Investment Bank J, 2017).
(8) All Investment banks are required legally to follow the prudential rules including minimum capital adequacy, assessment all risks (credit, counterparty credit, market, operational and liquidity risks) and market discipline across all business lines (e.g. Investment Bank C, 2017b; Investment Bank D, 2017b; Investment Bank E, 2017b; Investment Bank H, 2017b).
(9) The Bank's annual report stated that special-purpose entities are created as a requirement to custody the assets of private funds or real estate funds in accordance with the regulations (Investment Bank I, 2017).
(10) & (11) The investment banks' annual reports and financial statements showed that the saving and benefits schemes such as generous pensions plans, free-interest and housing loans, annual bounces and invectives stock options are applied to motive employee at the general level of investment banks for all employee (Investment Bank D, 2017a; Investment Bank G, 2017; Investment Bank H, 2017a; Investment Bank J, 2017).
(12) The investment banks annual reports showed that external trainings were held for staff across all business lines according to CMA's instructions related to financial market systems, financial and technical analysis, as well as combating money laundering and terrorist financing (Investment Bank B, 2017).
(13) & (14) Reviewing different investment product prospectus for participated investment banks, it was observed that the revenue streams are either fixed fees (SR 6,000-700,000) or as a percentage of the net asset value annually (0.015% - 0.85%) for custody and administration services (CMA, 2017d).
(15) The Investment bank's annual report and financial statements showed that the costs and infrastructure investment in IT dominated in custody services (Investment Bank J, 2017).
(16) Through reviewing a number of different investment product prospectuses for participated investment banks, it is clear that fees are inversely related to the size of funds. The higher the size of the fund, the lower the custody fees taking the benefit of economies of scale (CMA, 2017d).
(17) The Investment bank's annual report stated that the custody services' profit margins are in line with the industry average where pricing decisions should consider the competitors' fees (Investment Bank I, 2017)

5.3 DRIVERS AND CONSEQUENCES OF BUSINESS MODEL INNOVATIONS

Having mapped the multiple business models for investment banks, this chapter will explore the drivers and consequences of business model innovation. In chapter 3, a number of business model innovation drivers have been identified and were categorised into three levels: economy, industry and firm drivers. Because our earlier findings suggest that investment banks have multiple business models, the drivers and consequences of business model innovation will be explored for each line.

Our findings suggest that investment banks innovate their multiple business models by responding to particular economic, industry and firm drivers and changing specific business model activities. This chapter will provide evidence of how investment banks achieve business model innovation. In this section, drivers affecting investment banks to innovate their business models will be explored in each business line highlighting the most and least affected activities. Evidence will be provided for each driver affecting an investment bank business model change.

5.3.1 ASSET MANAGEMENT

Our findings suggest that the most drivers forcing investment banks to change their asset management business model are clients, crisis and economic changes, regulations, top management, and rivalry. Table 5.19 highlights the drivers of asset management business model innovation. Each of these drivers will be discussed below.

Table 5.19 Drivers of Asset Management Business Model Innovation

Drivers	Clients	Crisis and economic changes	Regulations	Top management	Rivalry
Ranking *	1	2	3	4	5
No. of change events**	13	12	8	6	5
Min. changes***	1	1	1	2	1
Max. changes***	6	6	5	8	5
No. of most affected activities *****	4	4	4	5	5
Core offering	●	●	●	●	●
Customer needs	●	●	○	○	●
Target customers	●	-	●	○	○
Perceived customer value	○	○	-	○	-
Key Assets	-	-	○	○	○
Key process	-	○	○	-	●
Partners network	○	●	○	○	○
Distribution channels	-	-	○	●	-
Organisational Learning	-	○	-	-	-
Skills and competences	○	○	○	●	●
Incentives	-	-	-	-	-
Training	-	-	○	○	-
Revenue stream	●	●	●	●	-
Cost structure	○	○	●	-	-
Cash flow	○	○	○	○	-
Margins	○	○	○	●	●

Source: Developed by (the author)

* The drivers were ranked according to the number of events for each driver faced the participating investment banks
** The events associated with each driver were analysed to measure the number of changes occurred.
***Minimum changes in activities that may occur as a result of the driver. Maximum changes in activities that may occur as a result of the driver
**** The number of activities that are most affected by the driver.
● Most affected activities ○ Least affected activities - Not mentioned

5.3.1.1 Clients

Our findings suggest that clients drive the change in asset management business model and affect four activities namely core offering, customer needs, target customers and revenue streams (Table 5.20). Evidence from interviews with senior executives referring to these changes is presented as follows:

> *"**Many insurance companies** are entering the market ... there will be a mandatory life insurance ... so we need to know **what the market really needs** before **we differentiate our investment products** to **meet institutional investors requirements** and also a build track record on this side and **diversify revenues.**" (A1)*

*"We want people to see us as a boutique investment bank that **provides customized services for investors** ... because the nature of **our customers are corporates and ultra-high net wealth individuals who need customized services** ... we want to give something extra ... it takes a lot of effort and cost but we noticed that clients appreciate the extra mile … **clients' needs tweaked on a monthly and annual basis** ... or charts and require missing information … we make **customized reports for them** unlike investment banks owned by commercial banks ... these are standard reports that go to clients no matter who the clients are." (B1)*

*"**Some investment products** are created for a purpose ... in Saudi ... there are **clients who are not qualified to be DPM clients** ... **so we create that particular multi-assets funds for those small clients** that are not big enough to have their own DPM ... this kind of clients are transferred to multi assets management ... we then have the opportunity **to find a new revenue pipeline and meet those clients' requirements** ... otherwise we will lose them." (C2)*

*"**Clients' feedback** ... they **gave us an idea of how to improve or how to develop our investment products** ... or **if there is a successful competitor** ... **our clients refer or move to** ... we usually do some sort of a mystery shopping and try to figure out what they are offering." (C2)*

*"If you really look at the **market and people** ... there are **investors** ... who are in a conservative space … they don't want to take any risk ... **a conservative asset class** ... people started realizing the income securities ... fixed income funds are mostly producing an average of 1.5 to 1.6% return that doesn't even cover the Zakat ... we realize the current interest rate scenario ... **we introduced structured product**s which are producing 7 to 8% net to our investors ... **through sharing their income with us.**" (D2)*

*"I think the external pressure ... mainly comes from the customers ... **Investors** are forcing us **to innovate our investment products**." (G2)*

Table 5.20 Asset Management Changes in the Most Affected Activities by Clients

Most Affected Activities	Associated Changes
Core offering	• Innovative investment products
Customer needs	• Fixed income • Multiple-asset class • Risk profile • Customised services
Target customers	• All categories of investors • New category of investors • Conservative Investors
Revenue stream	• Sharing-based model

Source: Developed by (the author)

5.3.1.2 Crisis and Economic Changes

Our findings suggest that crisis drives the change in asset management business model and affect four activities namely core offering, customer needs, partners network and revenue streams. The associated changes for each affected activity are presented in Table 5.21. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

*"The financial markets or stock markets in particular ... most companies **focus on equities** ... meaning 90% or even 100% of the assets are in the form of equity ... **any change in the market can affect the operation***

because they have human resource costs as fixed costs ... for us though... we tried to have ***balance between real estate ... equity ... private equity ... as three sector aspects*** *... if there is a crash in the financial market ...* ***we could stabilize our business revenues*** *... It is a priority for us to solve unforeseen problems that could relate to capital market crisis." (B1)*

*"**After the international crisis of 2008** .... we found out that international banks started to be conservative about real estate investment and provide facilities for mortgages even though the problem of 2008 was a crisis of mortgages ... **Banks in Saudi Arabia became conservative about giving facilities for real estate investment** ... as well ...real estate owners were trapped ... **we created new structure product "Rental Sukuk"** to adapt with **clients' needs and create new investment products for investors** ... so if there is a high rise building rented by a good tenant ... and the building is worth a hundred million ... we buy the building for 60% of its market value ... we re-rent it for the owner at 10% ... the owner takes 4 million and we take as a fund 6 million annually **as sharing-based revenue with low risk level that suits our investors**." (D1)*

*"... For Asset management ... **correlations of capital markets** ... **dynamism of economics** ... **market conditions** ... **how do we continue to grow and respond** ... **the pattern of investment products** ... **number of products** ... **given discounts for products that are profitable** ... **core competency disciplined** ... we have to be dynamic ... we have to be aware of changing market conditions ... changing appetite of clients ... **changing investment opportunities** ... **and undercut pricing**." (H1)*

Table 5.21 Asset Management Changes in the Most Affected Activities by Crisis and Economic Changes

Most Affected Activities	Associated Changes
Core offering	• Diversifying the portfolio of investment products • Innovative investment products • Changing Investment products structure
Customer needs	• Fixed Income • Risk profile
Partners network	• New international Alliances • Sub-investment managers
Revenue streams	• Stabilizing revenue stream

Source: Developed by (the author)

5.3.1.3 Regulations

Our findings suggest that regulation drives the change in asset management business model and affects four activities namely core offering, target customers, revenue streams and cost structure. The associated changes for each affected activity are presented in Table 5.22. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

*"The regulator would like to enhance the institutional investment ... shifting from retail to institutions ... it will be difficult for individuals to subscribe to IPO's directly ... **In the recent amendment to IPO rules and CMA strategic plan** ... **a big portion of allocation in IPO's is dedicated to institutions and IPO funds** ... this resulted in **many IPO's funds being lunched recently to attract the Individual Investors**." (A1)*

*"**CMA will allow foreign investors to invest directly** ... **we thought of new investment product to launch** ... **multi-manager fund** ... when a foreign investor enters the market ... he always looks for at least 5 years old*

investment banks that have track record ... understand existing regulations with limited risks ... International Investors would not enter in business with asset managers who have less than 5 years of experience ... but he will have a problem because he needs to do the whole administrative process of creating an account which is done with 5-6 asset managers ... we introduced a multi-manager fund .... meaning one of the conditions for the fund is to work with asset managers who have the necessary experience and was listed one of the top 5 fund managers in recent years … I ***open an account with each asset manager*** *and the investor opens an account with me ...* ***with one account you can invest with 5 or 6 asset managers*** *… I could* ***target new customers*** *… with* ***new investment products*** *and* ***create fees with less efforts and costs****." (B1)*

"Additional costs were added by the CMA two years ago ... thus ***we had to change the terms and conditions of funds*** *to* ***include these new regulations*** *... and the new fees made us* ***modify our management and performance fees for some funds*** *to* ***maintain certain profit margins and reduce the effect on the change in costs****." (C1)*

"Sometimes you are forced to modify your work mechanism ... for example ... at some point the ***CMA stopped issuing licenses to real estate funds for the purpose of amending existing regulation*** *... this caused us a problem where we had many real estate investment projects ready to launch for investors ... to overcome this hurdle ...* ***we offered it through a new structure as a private equity fund via a special-purpose entity instead of a real estate fund and changed the target investors to institutions*** *... yes … real estate funds are more flexible in offering and dealing, but this has* ***led to an adjustment of the structure of revenue from being based on fees only to participate in fees*** *...* ***we continued to offer real estate investments either as a public real estate fund or through private equity funds****." (F1)*

Table 5.22 Asset Management Changes in the Most Affected Activities by Regulations

Most Affected Activities	Associated Changes
Core offering	• Innovative investment products • Changing Investment products structure
Target customers	• International Investors
Revenue streams	• Sharing-based model
Cost structure	• Raising regulator fees

Source: Developed by (the author)

5.3.1.4 Top Management

Our findings suggest that top management drives the change in asset management business model and affects five activities namely core offering, distribution channels, skills and competences, revenue stream and margins. The associated changes are presented in Table 5.23 for each affected activity. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

"One of the objectives for our strategy is to ***make effective communication mechanisms with the members of the Board and partners*** ... to benefit from their relationship with the financial community ... the core of what draws investors' money. Usually you start from the founders' relationships with people ... we **use them as a channel to sell investment products and attract new investors** … we ***have lunched some new products by using the feedback from this channel.*** " (B1)

"We are required to satisfy investors and achieve their investment goals ... ***Internally we are trying to have a portfolio of products*** that fit the nature of the customers instead of waiting for them to come to us ... So ***CEO and head of unit support the Innovation process and give us the space to create our competitive advantage***

unlike our competitors ...this requires a big effort in order to ***develop the process to deal with new products and lay out the revenue and collect the cash*** ... we need ***qualified people*** for **new investment products** ... for instance ETF fund ... we needed support from IT and other investment banks." (C1)

"When I was ***appointed as a new CEO*** ... I noticed that business lines were not organized ... I ***created two business lines within asset management unit*** ... the first for capital market products ... and the second for real estate investment products ... ***this gave me a chance to move according to market conditions*** ... our ***main partner is a commercial bank ... we agreed to use their branches as distribution channels in order to bring in new investors*** ... also we considered ***the insurance company owned by the main partner*** ... ***we started to develop integrated savings products*** ... we focused on the investment side and the insurance company focused on the saving plan." (F1)

""***Asset managers meet periodically*** to discuss performance and ***consider the possibility of developing new investment products and review the new trend in the industry*** ... asset management often reviews the structure of investments ... ***changing profit margins*** ... ***the diversification of the investment products portfolio that leads directly to the diversity of sources of income*** instead of relying on a certain category of investment funds or asset … and identify ***what new competencies we need after discovering new opportunities***." (G3)

Table 5.23 Asset Management Changes in the Most Affected Activities by Top Management

Most Affected Activities	Associated Changes
Core offering	• Innovative investment products • New Integrated products
Distribution channels	• Board of directors and partners • Commercial bank branches
Skills and competences	• Building on existing competencies
Revenue stream	• Diversifying revenue streams
Margins	• Channing profit margins

Source: Developed by (the author)

5.3.1.5 Rivalry

Our findings suggest that rivalry drives the change in asset management business model and affects five activities namely core offering, customer needs, key process, skills and competences and margins. Table 5.24 shows the associated changes for each affected activity. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

"Some investors ... when they want to invest in money market funds ... ***they compare pay-out ratios among available money market funds*** ... the ***permanence of other asset managers is an important element that needs reviewing*** ... we ***hired more qualified people to beat the competition... even hiring an asset manager who manages the best performance fund*** ... we considered to ***launch substitute funds to achieve higher returns*** ... In many cases ***where the investment products are standard with limited risks ... investors seek higher return only*** ... this kind of ***products were influenced by fees' structure by the competition*** ... we were ***decreasing our pricing and profit*** in order to keep our products attractive." (C5)

"If you want to stay in the investment industry ... ***you have to sell some basic products*** ... like Murabaha money market fund .... very nicely organized ... ***adjusted risk management ... but where we are different is in offering a superior risk management controlling product*** ... we are trying to ***look at the market and improve things in different ways*** ... trying to offer better customer service such as ***updated reports*** ... this is also important and to focus on the way to ***make the customer profitable ... we consider his profit before considering ours***." (D3)

"The ***market has become so competitive*** ... we aim to increase our market share and ***presence as the largest and oldest investment bank***... you need to ***look outward*** ...***to attract investors*** and convince them of our high performing investment products ... especially with the absence of taxes ... we went to Singapore and Malaysia markets ... Thus ... ***we introduced new investment products with Islamic structures and competitive fees***." (I3)

Table 5.24 Asset management Changes in the Most Affected Activities by Rivalry

Most Affected Activities	Associated Changes
Core offering	• Basic investment products • Innovative investment products
Customer needs	• Sharia-compliant products
Key process	• Ongoing reports • Improving risk management
Skills and competences	• Building on existing competencies
Margins	• Increasing customers' profit margins • Decreasing profit margins

Source: Developed by (the author)

5.3.2 BROKERAGE

Our findings suggest that the drivers forcing investment banks to change their brokerage business model are rivalry, technologies and innovations, clients, and crisis and economic changes. Table 5.25 highlights the drivers of brokerage business model innovation. Each of these drivers will be discussed below.

Table 5.25 Drivers of Brokerage Business Model Innovation

Drivers	Rivalry	Technologies and Innovations	Clients	Crisis and economic changes
Ranking*	1	2	3	4
No. of change events**	6	3	3	2
Min. changes***	2	2	3	3
Max. changes***	7	4	5	3
No. of most affected activities****	4	4	4	3
Core offering	●	○	●	●
Customer needs	●	-	●	-
Target customers	○	-	●	-
Perceived Customer value	○	-	-	-
Key Assets	●	●	●	-
Key process	○	●	○	●
Partners network	○	-	○	-
Distribution channels	○	●	-	-
Organisational Learning	-	-	-	-
Skills and competences	-	-	-	-
Incentives	-	-	-	-
Training	-	-	-	-
Revenue stream	●	-	○	●
Cost structure	○	●	-	-
Cash flow	○	-	-	-
Margins	○	-	○	-

Source: Developed by (the author)

* The drivers were ranked according to the number of events for each driver faced the participating investment banks
** The events associated with each driver were analysed to measure the number of changes occurred.
***Minimum changes in activities that may occur as a result of the driver. Maximum changes in activities that may occur as a result of the driver
**** The number of activities that are most affected by the driver.
● Most affected activities ○ Least affected activities - Not mentioned

5.3.2.1 Rivalry

Our findings suggest that rivalry drives the change in brokerage business model and affect four activities namely core offering, customer needs, key assets and revenue stream. The associated changes for each affected activity are presented in Table 5.26. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

> "Competitors such as banks affiliate AP's have impact ... ***competitors weaken our ability to get loans*** to support **the required margin lending by traders** ... we try to resolve that by ***creating internal relationships among assets management and brokerage through new investment products*** ... to help each other take benefits from the profitability of margin lending ... they need to decide ***how we charge our clients either by focusing on trading commissions or by focusing on lending revenue*** ... In addition ... we should ***improve our***

trading services and IT infrastructure to make sure that there is no traffic resulting from accepting new clients due to providing margin lending" (C4)

"We changed our way of thinking ... ***we don't compete with banks because we will never be a very strong brokerage house*** ... the ***revenue of this line is affected by intense competition*** … I will ***use my own brokerage to serve the asset management and to serve selected clients*** ... In many cases ***brokerage is provided to certain customers as a service free of charge***" (D4)

"What would differentiate our services ... some competitors would be distinguished in providing products such as low cost margin lending ... however ... the service for trading is similar among most brokerage firms ... generally there is no huge difference ... some companies have added a new product ... which is the margin ... in our case ... ***we develop the system to give margin lending online*** ... ***It is a new service*** … because the customer is interested in ***the speed of response and access to credit facilities*** ... It was therefore important to scrutinize ***cash flows and collaterals process*** as well as ***increase discounts in trading commissions***"(I2)

Table 5.26 Brokerage Changes in the Most Affected Activities by Rivalry

Most Affected Activities	Associated Changes
Core offering	• Innovative specific brokerage services • Complementary services
Customer needs	• Margin lending
Key assets	• Improving brokerage system
Revenue stream	• Deploy multi-brokerage models

Source: Developed by (the author)

5.3.2.2 Technologies and Innovations

Our findings suggest that technologies and innovations drive the change in brokerage business model and affect four activities namely key assets, key process, distribution channels and cost structure. The associated changes are presented in Table 5.27. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

"When we first started ... there was only trading through telephone or in branches ... ***nowadays ... we have trading online and through smartphones ... we developed our products using the new technology*** ... we have generated applications not only for brokerage but also for funds, subscription, and redemption ... ***clients can do either online or through smartphones applications*** … this helped us ***to reduce the costs of branches and brokerage staff*** … the ***main cost structure for brokerage is transferred from staff to IT infrastructure and maintenance***." (C1)

"***IT Technologies*** ... that will be the ***main driver of your business model innovation*** ... in terms of driving a business segment forward ... IT influences brokerage ... ***change the dynamics ... process and execution have become more effective*** ... It led ***to reduced staff costs and accelerated the process of execution*** ... ***open new channels to trade*** ... we applied a new system help us to ***better manage the collaterals***... even ***the way to attract customers in which the process to create trading accounts has become easier and faster.***" (H3)

Table 5.27 Brokerage Changes in the Most Affected Activities by Technologies and Innovations

Most Affected Activities	Associated Changes
Key assets	• Improving brokerage system • Collaterals management system
Key process	• Opening online accounts • Execution process • Automated collaterals management
Distribution channels	• Deploy multi-channels
Cost structure	• Reducing costs: branches and staff costs • Increasing costs of IT

Source: Developed by (the author)

5.3.2.3 Clients

Our findings suggest that clients drive the change in brokerage business model and affect four activities namely core offering, customer needs, target customers and key assets. The associated changes for each affected activity are presented in Table 5.28. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

> "Some of the banks offer margins lending ... while others don't ... ***If you are a very active trader*** ... no matter how much discount is on offer ... ***traders will select other brokerage houses, because they provide better platform and trading systems with speed of execution***... therefore ... ***we developed our trading systems to make sure that transactions are made efficiently*** ... therefore ... ***we made active traders as our target customers***." (C2)

> "The regulator recently permitted qualified foreign institutional investors to invest directly in the market … Nonetheless … ***the international investors need 2 days for settlement like in international markets*** … In Saudi Arabia … settlements are instant … thus ***all international investors we talked to … required a solution for this matter*** … we tried to ***do make changes to fund their transactions internally*** until the exchange is successful … we had to ***change some processes and offer lending until we receive money***." (E1)

Table 5.28 Brokerage Changes in the Most Affected Activities by Clients

Most Affected Activities	Associated Changes
Core offering	• Providing specific brokerage services
Customer needs	• Margin lending • 2+ Business day's settlement cycle • Efficient trading platform
Target customers	• International Investors
Key Assets	• Improving brokerage system

Source: Developed by (the author)

5.3.2.4 Crisis and Economics Changes

Our findings suggest that crisis drive the change in brokerage business model and affect three activities namely core offering, key process and revenue streams. Table 5.29 shows the associated changes for each affected activity. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

> "At ***the downturn time*** ... we ***change our strategy*** ... In 2008 ... we ***introduced the margins trading*** ... basically ... we saw that there weren't many opportunities in the market... so we needed to ***encourage people to go to the market and double their chances and make money by having leverage*** ... when the market was up again... we became ***reluctant at giving margins and changed margins terms*** ... sometimes clients want to get margins when the market is up - which we think it is quite risky ... so basically ***we change our parameters for giving them margins*** **in an innovative way**... this strategy ***helped to add a revenue opportunity in addition to the trading commissions***."(C2)

Table 5.29 Brokerage Changes in the Most Affected Activities by Crisis and Economic Changes

Most Affected Activities	Associated Changes
Core offering	• Innovative brokerage services
Key Process	• Margin lending process and terms
Revenue Streams	• Deploy multi-brokerage models

Source: Developed by (the author)

5.3.3 INVESTMENT BANKING

Our findings suggest that the most drivers forcing investment banks to change their investment banking business model are top management, service providers/ suppliers, culture, technologies and innovations, and crisis and economic changes. Table 5.30 highlights the drivers of investment banking business model innovation. Each of these drivers will be discussed below.

Table 5.30 Drivers of Investment Banking Business Model Innovation

Drivers	Top Manag.	Services providers/ Suppliers	Culture	Technologies and innovations	Crisis and economic changes
Ranking*	1	2	3	4	5
No. of change events**	3	2	1	1	1
Min. changes***	3	2	5	7	3
Max. changes***	5	3	5	7	3
No. of most affected activities ******	4	3	5	7	3
Core offering	●	●	●	●	●
Customer needs	●	○	●	●	●
Target customers	●	-	-	●	●
Perceived customer value	-	-	-	-	-
Key Assets	-	-	●	●	-
Key process	-	-	●	●	-
Partners network	○	●	-	-	-
Distribution channels	-	-	-	●	-
Organisational Learning	-	-	-	-	-
Skills and competences	○	●	-	-	-
Incentives	-	-	-	-	-
Training	-	-	-	-	-
Revenue stream	●	-	-	-	-
Cost structure	-	-	●	●	-
Cash flow	-	-	-	-	-
Margins	-	-	-	-	-

Source: Developed by (the author)

* The drivers were ranked according to the number of events for each driver faced the participating investment banks
** The events associated with each driver were analysed to measure the number of changes occurred.
***Minimum changes in activities that may occur as a result of the driver. Maximum changes in activities that may occur as a result of the driver
**** The number of activities that are most affected by the driver.
● Most affected activities ○ Least affected activities - Not mentioned

5.3.3.1 Top Management

Our findings suggest that top management drives the change in investment banking business model and affect four activities namely core offering, customer needs, target customers and revenue streams. The associated changes are presented in Table 5.31 for each affected activity. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

> "Another wave … that we are aware of … ***we are noticing local and international private equities firms interested in buying family businesses*** … we were trying to ***find international houses to introduce us and connect us with investors*** looking for Saudi private and family businesses … ***to diversity our business portfolio and clients***." (C3)

"The biggest problem is the issue of volatility in this line of business... for example ... you make 10 million riyals ... and possibly zero in the next year ... ***the volatility is the biggest problem in the this industry ... It is only seen by management*** ... we are trying to diversify our revenues ... by ***offering consultations far away from M&A transactions and IPO*** ... customers are unfamiliar with our presence as part of our bank and as a new bank that is aggressive in lending ... ***we launched new services to help firms in the process of getting loans efficiently and link them with commercial banks***... It keeps generating revenues... with other services." (F3)

"Consulting in general ... private offerings ... mergers and acquisitions ... private equity firms ... or family offices are looking to acquire promising operating assets in the market ... ***how do I build my strategy*** ... I am maximizing the potential by signing deals with clients .... I ***guarantee the quality of the products I offer my clients in terms of execution and professionalism*** ... Internal ***resources must be very picky because this work is based on the people ... if you have a strong team ... a committed team ... a professional team*** ... It is likely to sell in the market despite your trade name. How do you build your record ... where to start ... What kind of deals will get you there... mergers and acquisitions ... a lot of the fees ... If I am successful in completing a deal ... but It requires a lot of time and negotiation ... Is it possible to enter into this process and complete the deal... here you are actually getting a low probability of success in these transactions ... there are different ways to go about this... either sign many deals ... and ***maybe you have 10 M&As that 2 of them will close ... or you can diversify your product and make sure you can achieve your goals with different types of products ... evaluation services*** ... ***One can choose either M&A and IPO transactions or consultancy."*** (H2)

Table 5.31 Investment Banking Changes in the Most Affected Activities by Top Management

Most Affected Activities	Associated Changes
Core offering	• Diversifying investment services • Innovative investment banking services
Customer needs	• Acquiring Saudi private firms • Effective debt arranging • Acquisition with a high potential return
Target customers	• International private equities firms • Private equity firms • Family firms
Revenue stream	• Reducing the revenue streams volatility • Diversifying revenue streams

Source: Developed by (the author)

5.3.3.2 Service Providers/Suppliers

Our findings suggest that service providers drive the change in investment banking business model and affect three activities namely core offering, partners' network, and skills and competences. The associated changes for each affected activity are presented in Table 5.32. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

"***Due to the lack of specialized competencies in corporate finance*** … we have tried in the past to ***change the way we work by relying on external resources*** … ***we searched for small professional companies specializing in market research and financial consulting, and provide efficiency at acceptable prices***. … the goal is to ***find***

an alternative to hiring specialists with high salaries … In this case … we tried to solve the problem of fluctuation in revenues … pay for what we need only … It is not guaranteed to have permanent transactions ... ***the idea came when many professional service providers offered us to work together ... so that some functions such as market studies … financial valuations … data collection and analysis ... outsourcing*** … we aim to solve the problem of shortage in competencies and their high costs … ***their goal is to get business because of their inability to compete in the investment banking division*** … ***this is because they do not have arranging and consultation licenses***." (B1)

"Due to the fact that ***banking consulting services depends on the participation of other parties such as accountants ... legal firms ... commercial banks ... underwriters*** ... usually ***poor performance or slower response causes problems*** ... the basic principle that ***we would like to work with advisors that we know their teams***... we know how they work ... people change ... so people leave the company ... so you do not seek the same company ... ***we have changed legal firms we worked with in the past because they did not offer the best prices any more*** ... they ***were very busy and did not offer our clients good rates*** ... relationship ended ... the aim is to ***fulfill the clients' needs to perform transactions in a reliable way with experienced advisors***." (C3)

"Today ... ***you need people and consultants to come from outside the industry*** ... ***see what new services they can introduce*** ... ***how you could change your business model*** ... try to introduce something new ... ***should not be huge ... just ideas*** ... ***bring new trends from global markets*** ... ***find the gaps in Saudi industry*** ... try to help solve issues in the core business." (F3)

Table 5.32 Investment Banking Changes in the Most Affected Activities by Service Providers

Most Affected Activities	Associated Changes
Core offering	• Innovative investment banking services
Partners network	• International advisory firms
Skills and competences	• Outsourcing services

Source: Developed by (the author)

5.3.3.3 Culture

Our findings suggest that culture drives the change in investment banking business model and affects five activities namely core offering, customer needs, key assets, key process and cost structure. Table 5.33 shows the associated changes for each affected activity. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

"The ***internal environment*** is so important ... I mean ... the ***Investment bank's culture*** ... how you create such ***innovative culture*** ... for instance ... ***there's one process in an IPO that is a labour intensive process ... we have developed a software*** ... to ***perform such complex tasks*** ... electronically … that was an ***idea that came from the team*** ... we've tested it ... we spent time in the IT department ... and we have a new system which we run ... ***this led to cutting costs*** because the costs moved from spending on staff to IT systems ... ***enhance our abilities to serve our customers faster*** ... I mean ***finishing the deal faster for corporates in order to go public***." (G1)

Table 5.33 Investment Banking Changes in the Most Affected Activities by Culture

Most Affected Activities	Associated Changes
Core offering	• Improving investment services
Customer needs	• Timeliness
Key assets	• Innovative software
Key process	• Automating process
Cost structure	• Reducing staff costs

Source: Developed by (the author)

5.3.3.4 *Technologies and Innovations*

Our findings suggest that technologies and innovation drives the change in investment banking business model and affects seven activities namely core offering, customer needs, target customers, key assets, key process, distribution channels and cost structure. Each affected activity is presented in Table 5.34 to present associated changes. Evidence from an interview with a senior executive referring to these changes is highlighted as follows:

> "***98% of subscriptions come from technology*** whether **ATM** ... **online banking** ... **phone banking** ... or **SMS** ... ***all clients*** are served and can subscribe at any time without much effort ... so we can save a lot of time ... we don't have to print half a million subscription forms ... and hundreds of thousands of prospectus ... ***now everything is online*** ... In fact we us **brokerage system and cchannels** ... we can just post subscription link online ... people can download them ... subscription can be done electronically ... ***and the cost is less but has moved to maintaining the system*** ... as a result ... ***we could serve all clients geographically to satisfy their need to subscribe to an IPO online ... the process, monitoring, and reporting become a lot easier ... we provide different channels to subscribe ... and as a result reduce staff costs***."(C3)

Table 5.34 Investment Banking Changes in the Most Affected Activities by Technologies and Innovations

Most Affected Activities	Associated Changes
Core offering	• Innovative investment services
Customer needs	• Online subscriptions and services
Target customers	• All categories of investors
Key Assets	• Utilizing brokerage system
Key process	• Electronic subscription forms
Distribution channels	• Brokerage distribution channels
Cost structure	• Reducing transactions costs

Source: Developed by (the author)

5.3.3.5 *Crisis and Economics Changes*

Our findings suggest that crisis drive the change in investment banking business model and affect three activities namely core offering, customer needs, and target customers.

Table 5.35 present the associated changes for each affected activity. Evidence from an interview with a senior executive referring to these changes is highlighted as follows:

> "We have to be aware of the ***fluctuations in the market*** ... what sectors will be more favorable ... because ***in times of financial crisis*** ... ***not all companies got into an IPO or preferred private equity*** ... ***because the P/E is gone very low and they would like to price their equities better*** ... the prices are worse when compared with the capital market ... so ***does that force you to change the strategy and advice your customers to the IPO ... Yes*** ... what we always tell our clients … ***non-listed firms … that they should prepare for an IPO ... spend time and effort preparing for it ... and once the capital market conditions are favorable ... go public with a good selling price*** ... ***In the time of economic changes ... we have to move through investment services ...*** if there is a decline in the stock market... then there will be fewer IPO transactions... then we focus on financial advisories for capital restructuring ... and M&A transactions where firms would like to expand and work more efficiently ." (G2)

Table 5.35 Investment Banking Changes in the Most Affected Activities by Crisis and Economic Changes

Most Affected Activities	Associated Changes
Core offering	• Changing the portfolio of investment services
Customer needs	• Best pricing for transactions
Target customers	• Non-listed firms

Source: Developed by (the author)

5.3.4 CUSTODY SERVICES

Our findings suggest that the drivers forcing investment banks to change their custody business model are industry demand and regulations. Table 5.36 highlights the drivers of custody business model innovation. Each of these drivers will be discussed below.

Table 5.36 Drivers of Custody Business Model Innovation

Drivers	Industry Demand	Regulations
Ranking*	**1**	**2**
No. of change events**	**3**	**2**
Min. changes***	**3**	**3**
Max. changes***	**5**	**7**
No. of most affected activities ******	**5**	**5**
Core offering	●	●
Customer needs	○	-
Target customers	●	-
Perceived customer value	-	-
Key Assets	○	●
Key process	○	●
Partners network	●	●
Distribution channels	-	-
Organisational Learning	-	-
Skills and competences	-	-
Incentives	-	-
Training	-	-
Revenue stream	●	-
Cost structure	●	●
Cash flow	-	-
Margins	-	-

Source: Developed by (the author)

* The drivers were ranked according to the number of events for each driver faced the participating investment banks
** The events associated with each driver were analysed to measure the number of changes occurred.
***Minimum changes in activities that may occur as a result of the driver. Maximum changes in activities that may occur as a result of the driver
**** The number of activities that are most affected by the driver.
● Most affected activities ○ Least affected activities - Not mentioned

5.3.4.1 Industry Demand

Our findings suggest that crisis drive the change in custody business model and affect five activities namely core offering, target customer, partners' network, revenue streams and cost structure. The associated changes for each affected activity are presented in Table 5.37. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

> "***We now take up the role of the custodian for companies which are not listed in the capital market*** ... if you own stock in close joint firm of 100 million value... ***you will not be able to take margins from any bank as they might sell these without your knowledge***.... ***we can maintain equities and the investor takes a bank loan*** ... we ***guarantee the commercial banks that the equities are kept intact*** ... they **can't be divided or inherited** ... **beyond the knowledge of the bank** ... we guarantee that the investor does not sell ... we offer this service almost for free ... our aim is not to satisfy the companies but more importantly ... shareholders ... a bridge to reach them ... we offer them custody services ... we have no competitors in Saudi Arabia ... we are now planning to ***establish a new company to perform the operations for the investment firms*** **with our**

technical investment bank partner ... ***the operation is highly costly today*** ... **to provide investment banks custody services with less costs ... the aim is to diversify our revenues and not to depend on a few business lines.**" (D1)

"It is a cost ... ***why does the authority force firms to work with other custody firms ... today ... if you have fund units ... you have to work with a custody firm*** ... all around the world ***there are independent custody firms*** ... ***we made a contract with (Name of a regional investment bank)*** ... ***they will bring us the technology and ... save the investment companies hundreds of thousands of salaries*** ... so ***instead of getting the job done through operation ... it is done through outsourcing*** ... we keep our clients' information private ...this is extremely important ... sending reports to clients ... informing them about units whether monthly ... annually ... evaluating units ... when ***these things are done through internal operation*** ... ***it is very costly*** ... the new ***regulation makes the custody services profitable to utilize scale of economy.***" (D3)

Table 5.37 Custody Services Changes in the Most Affected Activities by Industry Demand

Most Affected Activities	Associated Changes
Core offering	• Maintaining collaterals • Independent custody services
Target customers	• Non-listed firms • Investment banks • Mutual investment funds
Partners network	• Technical Investment banks partners • Commercial banks
Revenue stream	• Free services • Diversifying revenue streams
Cost structure	• Reducing costs

Source: Developed by (the author)

5.3.4.2 Regulations

Our findings suggest that regulations drive the change in custody business model and affect five activities namely core offering, key assets, key process, partners' networks and cost structure. The associated changes are presented in Table 5.38 for each affected activity. Evidence from interviews with senior executives referring to these changes is highlighted as follows:

"Now ... CMA ... ***the new regulation ... the new strategy ... will force all investment banks and mutual funds to assign an independent custodian*** **to carry out safekeeping and administration works for funds and brokerage business** ... what will happen is that the custody services will be ***carried out by other investment banks*** ... this ***will result in less internal work ... outsourcing ... pricing and cost structure in general will change*** ... because ***custody will be a revenue source*** for some investment banks." (E1)

"Custody ... ***commission has approved the independent custody system*** ... so no one has custody mature enough to compete ... on the contrary ... ***we invested heavily in the custody infrastructure and systems*** ... it costs us a lot ... we will be one of the big players in the market ... we are ***targeting existing relationships with global custodians.***" (J2)

Table 5.38 Custody Services Changes in the Most Affected Activities by Regulation

Most Affected Activities	Associated Changes
Core offering	• Innovative custody services
Key Assets	• Improving custody system
Key Process	• Outsourcing custody services
Partners network	• International custodian banks
Cost structure	• Increasing IT costs

Source: Developed by (the author)

5.4 CONCLUSION

This chapter presented the application of our framework of business model innovation to map investment banks' multiple business models. A business model emerged for each investment bank line confirming that investment banks manage multiple business models (a business model for each business line). To innovate these multiple models, investment banks respond to particular economic, industry and firm drivers by changing specific business model activities. The next chapter will discuss these findings.

CHAPTER 6: DISCUSSION AND INTERPRETATION

6.1 INTRODUCTION

In the previous chapter, our findings indicate that investment banks carry out business model innovation in various lines by responding to particular economic, industry and firm drivers and changing specific business model activities. This chapter will discuss the empirical findings to highlight the drivers of business model innovation in all business lines, in two lines, and in at least one line. It will also discuss multiple business model innovation within investment banks by focusing on changing one activity or multiple activities to achieve business model innovation. Finally, this chapter will discuss the findings regarding changes of value proposition, operational value, human capital and financial value activities.

6.2 DRIVERS OF BUSINESS MODEL INNOVATION

One of the long-standing questions in strategy is "*why firms operate under different business models in the same industry*" (Casadesus-Masanell & Zhu, 2013). To answer this question, the triggers behind business model change must be made clear. This study reveals that investment banks tend to carry out business model innovation in different lines depending on economic, industry and firm drivers. Emphasis in previous studies looking at business model innovation was placed on external threats such as competition, technology and regulation (e.g. Amit & zott, 2015; Casadesus-Masanell & Zhu, 2013; Demil & Lecocq, 2010). This focus on external drivers marginalised the internal drivers, which remain unclear (Martins et al., 2015). Additionally, Firms that efficiently govern different drivers are able to capture more value (Santos, 2012). Unlike the previous studies, our study explored all drivers (external as well as internal) forcing investment banks to change their existing business models. Moreover, we argue that different drivers tend to trigger changes in specific business lines. Table 6.1 provides a summary of the drivers forcing different investment banks business lines to innovate their business models.

Table 6.1 Drivers of Investment Banks' Business Model Innovation

Drivers \ Investment Banks	A	B	C	D	E	F	G	H	I	J	Change Events
Clients	🔵	🔵	🔵 🟠	🔵	🟠	🔵 🟢	🔵	🔵	🔵		16
Crisis and economic changes		🔵	🟠	🔵		🔵	🔵 🟢	🔵			14
Rivalry	🟠	🟠	🔵 🟠	🔵 🟠			🔵	🔵	🔵 🟠		12
Top management		🔵	🔵 🟢			🔵	🔵	🟢			9
Regulations	🔵	🔵	🔵			🔵	🔵	🔵		🔴	9
Services providers / suppliers			🔵 🟢		🔵	🟢		🔵			5
Culture	🔵				🔵		🔵 🟢				4
Technologies and innovations			🟠 🟢					🟠			4
Industry demand				🔴	🔴	🔴					4

Asset Management 🔵 Brokerage 🟠 Investment banking 🟢 Custody services 🔴

Source: Developed by (the author)

6.2.1 DRIVERS OF BUSINESS MODEL INNOVATION IN ALL LINES

Clients, crisis and economic changes, rivalry, top management and regulations are the five drivers forcing investment banks to not only embark on change events, but also carry out business model changes in most investment banks' lines.

6.2.1.1 Clients

Although different business lines serve different customer segments and needs, clients drive business model change in every investment banking business line. This is in line with previous studies where customers' preferences represent the top driver in changing car rentals business models (Kiron et al., 2013a), and a core factor for changing business models in retail and bank industries (Sorescu et al., 2011).

Regardless of the investment banking business line, investment banks change business models to stop clients from leaving the bank for other competitors. The switching cost for leaving an investment bank is low and therefore business lines would always try to cater for investors' expectations. Banks proactively changing their business models in response to clients pressure with solutions and alternatives would not only secure their customer base bust also attract new clients. Some banks were found choosing to opt for a '*boutique investment bank*' by continuously adapting to clients' expectations and focusing on a few specialized aspects of investment banks

6.2.1.2 Crisis and Economic Changes

Economic downturn, bankruptcy, and economic cycle affect firms' business models (Sosna et al., 2010; Casadesus-Masanell & Ricart, 2010; Raventós & Melgarejo, 2016). Investment banks business models are no different, and are susceptible to market volatility, asset valuation, and risky investment. Consequently, investment banks diversify their services portfolio in response to any decline in other services' revenues.

Saudi Arabia has experienced two recent financial crises namely the collapse of the Saudi Exchange Market in 2006 and the global financial crisis in 2008. The former presented opportunities in certain areas relating to the types of investment products and funds away from traditional equity funds. Falling of funds' assets values have led to lower revenues as a percentage of the net assets value. This negative impact prompted many asset managers to diversify their portfolio of products to provide investment products that fit many of the risk levels. In crisis, traders become reluctant to invest and trade in capital markets. This has direct negative consequences on trading volumes, and consequently commissions earned in brokerage business line. Instead of only depending on trading commissions, banks resorted to modifying the model from commission-based model to financing-based model to enhance the opportunity to open new revenue streams. Brokerage service was not sustainable in these times, and many banks chose to abandon this service and focus on other services instead.

Moreover, the private equity business model moved to debt-equity approach as a result of the collapse of Slater Walker in 1975 where the industry and investors discredited the pure assets trading transactions (Erturk et al., 2010). In Saudi investment banks industry, a crisis of confidence between investors and asset managers was extremely influential. Asset managers were held accountable by investors for failing to manage their funds appropriately and their inability to respond to the market movements. Thus, serval banks changed their value proposition towards institutional investors.

6.2.1.3 Rivalry

The increase of competitors in the market results in a pressure on available human resource, high pricing competition and the challenges of obtaining market share. In highly competitive markets, incumbents can protect their market share through restructuring their existing business models (Markides & Sosa, 2013). Thus, gaining market share and sustainability in growth requires considering several aspects of the business model and continuous business model innovation to achieve long term success (Sosna et al., 2010).

The Saudi investment banking industry has been a fragmented environment in which a small number of banks dominate the market and compete with a number of smaller investments banks. Competition in brokerage commissions, for example, has led to tightening of trading commissions to the extent that small investment banks are unable to cover costs. This required streamlining the trading systems through the development and provision of brokerage services. In that, investment banks started providing complementary services such as all-inclusive reporting and analytics across multiple clients' investment accounts, research and financial analysis and advisory services. Moreover, margin lending services required by active traders have been provided by commercial bank affiliate investment banks. This service is delivered through a sophisticated trading system that makes margin lending easier to apply for and traders can get a quicker response. However, this makes it difficult and costly for independent investment banks to finance margin lending.

6.2.1.4 Top Management

Executives drive business model innovation through their cognitive and explorative goals (Osiyevskyy & Dewald, 2015b), observations (Botsman, 2014), and facilitating experimentations (Teece, 2010). Decision makers understanding of the risks and threats surrounding their business models is necessary to address them (McGrath, 2010). For investment banks, the risk is amplified since there are risks associated not only with each business line, but also for the overall investment bank business model.

Previous research supports the role of top management and managerial choices in driving business model innovation (e.g. Chakravorti, 2010, Martins et al., 2015, McNamara et al., 2013). In changing and innovating investment products in asset management, the role of the CEO is to stimulate existing talent to develop new investment products. The financial industry is talent-driven (McNamara et al., 2013) and will only settle with those that can constantly create new initiatives. Another issue in this industry associated with investment banking business line is completing transactions as quickly as possible. Senior management plays a key role in tracking activities and changing business models to quicken the process of completing transactions.

6.2.1.5 Regulations

Changing of regulation and industry structure can open up new business opportunities to redesign business models (Casadesus-Masanell & Ricart, 2010). New business models emerge following new regulations such as Fair Trade label (Walske & Tyson, 2015), Bosman ruling and broadcast revenue rules in UK football industry (Demil & Lecocq, 2010) and franchise system (Zott & Amit, 2010).

According to Teece (2010), the business models employed for over 20 years by U.S. investment banks were entirely changed in 2008. He argues that as a result of accepting government regulation, independent investment banks such as Goldman Sachs and Morgan Stanley changed their business models to maintain lower risk and accept lower returns.

Legislations and regulations imposed by CMA including those that related to managing funds and portfolios have changed the way in which asset management business line operate. Activities such as targeted customer, revenue models and costs structure were changed as a result of the new regulations. The continuous changes and updating of rules and regulations are the leading cause to increase costs and change the cost structure. Asset managers need to invest time and effort to absorb new regulations and correctly implement them. These new regulations force assets managers to adjust their revenue models especially if they are tightly associated with individual investors.

In May 2016, the Capital Market Authority issued a decision to amend the investment funds and real estate Investment funds regulations (CMA, 2017a). As a result, investment banks were required to appoint an independent custodian for investment funds. The amendments included a number of responsibilities and obligations of custodians which resulted in the establishment of a new phase for this business line. Changes in custody business models included delivering new services, development of infrastructure and systems, outsourcing custody services to independent third parties, and changing in the cost structure of investment funds.

6.2.2 DRIVERS OF BUSINESS MODEL INNOVATION IN TWO LINES

Three drivers force investment banks to carry out business model innovation in two lines. These drivers include services providers/suppliers, culture and technologies and innovations

6.2.2.1 Services providers/suppliers

Due to the lack of certain competencies in the financial industry, some investment banks are outsourcing services to well-reputed and cost-effective consulting firms. This changes the pattern of hiring high-paying employees to hiring external competencies on-demand basis. Independent consultants tasked with evaluating a bank's operations help the investment banks to change their business models by providing new ideas, solutions and bringing international practices to the local industry. In order to complete transactions in a timely manner, investment banks must eliminate delays and quicken the process. This is achieved through ensuring that consultants are providing the service required within the time provided; otherwise, they will not be selected in future projects. This is in line with the literature, where firms are changing their business models and selecting suppliers who can perform activities at a low cost (Bogers et al., 2015; Peters et al, 2015).

6.2.2.2 Culture

Capabilities of business model innovation are influenced significantly by the firm's underlying culture (Hock et al., 2016). Commitment, ownership and pioneer cultures have an impact on business model innovation (Ignatius, 2014). Culture has been found to drive business model changes in two lines: asset management and investment banking. Managing assets involves third parties that help in the delivery of several services. Innovative culture in asset management line will attract third parties that fit the agenda of this line. This innovative culture requires the line to support teams working towards changing the status quo (Zook & Allen, 2011).

6.2.2.3 Technologies and Innovations

Advancement in technology drives business model innovation (Gambardella & McGahan, 2010; Fichman et al., 2014, Auletta, 2015; Osiyevskyy & Dewald 2015a; Karimi & Walter, 2016). Financial technologies startups threaten established financial service firms (Christensen et al., 2016).

The discount brokerage business model is entirely driven by the trading systems that reduced transaction costs to almost zero. Unlike other lines, brokerage service was found to be affected by technology. Most investment banks attempt to develop their existing trading systems or implement new ones, in order to increase efficiency of operations, reduce human resources costs, and open multiple distribution channels whether through the Internet or smart phones which will eliminate the need for many physical branches that are high-cost investment centers. As argued by Wessel (2016), a combination between business model innovation and new technologies provides the opportunity to develop a cost advantage necessary to increase the market share. Technology can also help change business models by shortening complex processes, speeding up of opening accounts and managing collaterals with greater efficiency thereby reducing associated risks.

In investment banking line, technologies lead to changing activities particularly in distribution channels. Due to the development of electronic banking, IPO process has become much more accessible to a larger number of investors and a wider base of subscribers. Customers can access services through website, telephone banking, and Automated Teller Machines. This helps investment banks to facilitate the subscription process, ensure coverage, reduce the cost structure in terms of marketing, printing and distribution, reduce reliance on manual forms, and simplify subscription and follow-up procedures.

6.2.3 DRIVERS OF BUSINESS MODEL INNOVATION IN ONE LINE

One driver was associated with a business model innovation in one line. This driver is industry demand.

6.2.3.1 Industry Demand

Like other industries, investment banks business models are driven by industry demand. The literature is full of examples of companies that changed their existing business models or created new ones in response to industry demands e.g. an integrated business model with suppliers (Cao, 2014), and a web-based service business model (Chakravorti, 2010). In investment banking sector, a bank developed a unique business model to facilitate investors' bond trade by developing an online platform (Velu & Stiles, 2013). To respond to industry demands of custody services, many banks focused on this line of business to diversify sources of revenues by providing new services such as safekeeping and maintenance of assets, securities, records and documents, trading settlements and transferring stocks, servicing asset, managing administrative functions and other back-office works.

6.2.4 DRIVERS NOT AFFECTING INVESTMENT BANKS' BUSINESS MODELS

Our findings indicate that a number of drivers identified in the literature that force firms in other industries to change their business models did not drive business model innovation in investment banks including: imitation, substitutes, global competition and external stakeholders. Table 6.2 summarises why investment banks business models remain unchanged.

Table 6.2 Drivers not Affecting Investment Banks' Business Models

Drivers	Reasons why drivers are not deterministic in business model innovation
Imitation	• Imitation of investment products has become the norm in this industry. Although, investment banks keep innovating their products to outperform other banks, imitation of specific products does not on its own drive business model innovation. • Some of the lines rely solely on the process of value creation such as managing mutual funds and processing the IPO transactions. These processes are kept restricted and imitation of these processes is near impossible.
Substitutes	• Creating substitute products in this industry is extremely difficult as any investment product has unique characteristics with certain levels of expected return, risks and time horizon. • Regulatory restrictions make it extremely hard to provide new substitute services as each investment service or product has to go through regulatory approval should locate within the business licenses.
Global Competition	• Global competitors cannot operate in the Saudi market unless authorised. Unauthorised global investment banks are unable legally to meet clients and sell investment products/services. This makes global competition less of a driver to change existing investment banks business models. • It takes a long time for the new entrants to understand and adapt to the intricacies of the Saudi market.
External Stakeholders	• Regulatory compliance with social responsibility is non-existent in Saudi Arabia making it one less pressure to accommodate. • Saudi Investment banks are not listed on the stock exchange and are owned by a small number of investors. External stakeholders such as investors have good representation in the board of directors and top management by which considered as a part of top management.

Source: Developed by (the author)

Unlike other industries, this study revealed that investment banks in most lines are not affected by imitation. Copying successful business models or products (e.g. Mezger, 2014) in many industries such newspaper (Casadesus-masanell & Zhu, 2013) may result negative consequences on incumbents. Successful business model innovation invites copycat competitors by which firms' should be ready to respond (Zhu & Furr, 2016). In contrast, there is no evidence on the impact of imitations on investment banks' business model. The imitation of investment products by competitors in the asset management leads to a constant need for innovation in investment products. Imitation is a norm in the industry because the investment products details are published and can be easily imitated.

However, managing investment products to achieve the investment target requires value creation process that cannot be replicated and kept internally.

Substitute products provided rivals may lead to rethinking existing business models (e.g. Demil & Lecocq, 2010; Eyring et al., 2011) and have negative impact on business models in many industries such as the software industry (Liu et al., 2014), health care industry (Govindarajan & Ramamurti, 2013) and online media industry (Auletta, 2015). On the other hand, investment products generally have different attributes, underlying assets, risks, returns, time horizon, liquidity and cash flow patterns. Any investment products cannot be substituted by an investment alternative that gives the same return at the same level of risk. Additionally, new investment services must be approved by regulators and adheres to the business licenses.Several studies confirmed that the competition of global players may be a key factor in business model innovation and life cycle of services and products (e.g. Taran et al., 2015; Lindgren, 2015). Moreover, the cost revaluation comes from global competitors in emerging markets lead existing incumbent in developed countries to consider Innovating low-cost business models (Williamson, 2010). In investment banks, this study did not find evidence of this effect. Due to the complexities of licensing procedures, money transfer restrictions and the requirements for obtaining approvals from CMA to market any investment products, these could have played a crucial role in limiting the global competition on incumbent investment banks. Also, investment banks' operations involve understanding the market, clients and investors that could be lacked in global investment market.

The external stakeholders include governments and societies (e.g. Kiron et al., 2013; Li & Garnsey, 2014). The interests of different stakeholders may result in continuous change of business models (Miller, 2014) or initiate new business models (Sebastiani et al. 2013). This study revealed that there is no pressure from external stakeholders on investment banks to change their existing business models. There are no social responsibility regulations in Saudi Arabia that force investment banks compliance. In addition, most Saudi investment banks were established by a small number of investors. Those investment banks are not traded in the stock exchange and shareholders are well-represented in the board of directors.

6.3 MULTIPLE BUSINESS MODELS INNOVATION

Table 6.3 The Degree of Changes for Each Business Line and Most, Least and not Affected Business Model

Business lines	Min. changes at a time	Max. changes at a time	Most affected activities	Least affected or not affected activities
Asset Management	**1**	**8**	• Core offering • Customer needs • Target customers • Key process • Partners network • Distribution channels • Skills and competences • Revenue streams • Cost structure • Margins	• Perceived Customer value* • Key Assets • Incentives* • Training* • Organisational Learning* • Cash flow*
Brokerage	**2**	**7**	• Core offering • Customer needs • Target customers • Key Assets • Key process • Distribution channels • Revenue streams • Cost structure	• Perceived Customer value* • Partners network • Skills and competences • Incentives* • Training* • Organisational Learning* • Margins • Cash flow*
Investment Baking	**2**	**7**	• Core offering • Customer needs • Target customers • Key Assets • Key process • Partners network • Distribution channels • Skills and competences • Revenue streams • Cost structure	• Perceived Customer value* • Incentives* • Training* • Organisational Learning* • Cash flow* • Margins
Custody Services	**3**	**7**	• Core offering • Target customers • Key Assets • Key process • Partners network • Revenue streams • Cost structure	• Customer needs • Perceived Customer value* • Distribution channels • Skills and competences* • Incentives* • Training* • Organisational Learning* • Cash flow* • Margins

* Activities that not affected in all business lines
Source: Developed by (the author)

Business model innovation was carried out in every line with the highest activity changes in asset management, followed by investment banking, brokerage and finally custody services. Business model innovation requires at least a change in one activity (e.g. Teece, 2010; Zook & Allen, 2011; Amit & Zott, 2012; Sinfield et al., 2012). On the other hand, Demil and Lecocq (2010) claim that any business model changes necessitate changing multiple elements simultaneously. Further, Kiron et al. (2013a) suggest that firms changing three activities will achieve more profitable business models. Taran et al. (2015) identify business model innovation in two forms. The first is a simpler form where one up to four changes occurred in business models. The second is a complex form involving 5 changes and more.

Table 6.3 demonstrates the degree of changes for each line with the most, least and not affected activities. This study shows that business model innovation can start from one activity change (as the case in asset management), or from two or three up to seven activity changes (as in the cases of brokerage, investment banking, and custody services).

To innovate their asset management business models, investment banks carry changes in only one activity. This is in line with Amit & Zott (2012) argument that changing one activity is enough to achieve business model innovation. Asset management models were altered by carrying out one to 8 change events. In this business model, changing the core offering alone was a business model innovation since having a new investment product is seen as a business model innovation. This is in line with the literature where firms change one element of the business model while keeping the other elements intact (Zook & Allen, 2011).

To innovate other business models (brokerage, Investment banking and custody services), investment banks carry out more than one activity changes simultaneously. This is in line with the literature where changing business model activities required several alterations on business models' components and building blocks (Dahan et al., 2010; Demil & Lecocq, 2010). Unlike asset management line, which does not require huge investment, other lines tend to be more complex and require more than one change to achieve business model innovation. For instance, brokerage is driven by technology whereas asset management is service-based line not requires big spending on operating expenses and capital expenditures. The risk of change in the first business line is not as same as the second.

Although managing different units' business models are complex. This approach stands opposite being spatialized in a line of business or providing product only to niche market.

Each business line is different from the other in terms of activities and nature of the products. Therefore, it requires independent decision and analysis isolated from other business lines. In line with literature, Aspara et al. (2013) make a distinction between a firm's business model and business models for each strategic business units. In Investment banks, reasons for running multiple business models can be summarized according to the following:

- Diversified investment products and services portfolios will help the full-licensed Investment to attract many clients with diverse needs and investment objectives for investment products, brokerage services or financial advisory. Many clients need a certain bank investment products/services but also believe that the services in other business lines are complementary for their needs.
- Investors and clients are not identical in each line of business. Investment banks could find ways of bringing its value proposition to different groups of clients. The groups can be differed by geography, by nature (individuals, institutions, governments) or by return and risk apatite.
- Changing a business model for a business unit does not need to change other lines of business. Investment bank runs through a multiple business models for business lines. The investment bank could only change a business model of line whereas the others remain unchanged.
- Other reasons include :
    - Getting the advantages of cross selling
    - Reducing a slowdown risk in any line of business
    - Regulation factor may decrease the competitive advantages in one business line but creating opportunities in other business lines
    - A required huge infrastructure for each line of business does not exist.

6.4 CHANGING BUSINESS MODELS ACTIVITIES

From Table 6.4, investment banks undertake business model innovation through changing one or more activities. This is in line with previous studies (e.g. Teece, 2010; Taran et al.,

2015) emphasising that there is no need to entirely change the business model, but changing parts of it is sufficient to achieve business model innovation.

Table 6.4 Most Affected Investment Banks' Activities According to Drivers

Components	Activities	Asset Management	Brokerage	Investment Banking	Custody Services
Value Proposition	Core Offering	5	3	5	2
	Customer Needs	3	2	4	-
	Target Customers	2	1	3	1
Operational Value	Key Assets	-	3	2	1
	Key Process	1	2	2	1
	Partners Network	1	-	1	2
	Distribution Channels	1	1	1	-
Human Capital	Skills and Competences	2	-	1	-
Financial Value	Revenue Streams	4	2	1	1
	Cost Structure	1	1	2	2
	Margins	2	-	-	-

Note: Numbers refer to drivers that affected business models activities.
Source: Developed by (the author)

6.4.1 CHANGING VALUE PROPOSITION VALUE ACTIVITIES

Investment banks change their business models through changing value proposition activities. Value propositions activities account for most of the changes. Firms changing their business models start with altering value proposition (Xiaobo et al., 2010; Eyring et al., 2011; Amit & Zott, 2012; Bock et al., 2012; Kiron et al., 2013a). Also, firms adjust their business model to enter emerging markets by altering their value proposition (Landaue, 2016). Taran et al. (2015) further argues that value proposition and target customers change business models that have either simpler and/or complex forms.

In this study, value proposition tends to be unique for each investment bank's business line. This is consistent with the literature as high growth firms provide a variety of distinctive value propositions (Chandler et al., 2014). Each business line provides focuses on unique core offerings, and banks must be licensed to deliver these offerings. In order to respond to different drivers (mentioned in the earlier section), investment banks altered core offering for each business line to innovate their business models. In asset management, core offering changes include providing innovative investment products, diversifying the portfolio of these products, changing existing products' structure, and providing new integrated investment products such as insurance and providing basic investment products offered by other banks. To reduce future uncertainty, Girotra & Netessine (2014) advocate that firms must review their product portfolio.

In brokerage business line, core offering changes include providing complementary services to traders such as margin landings, providing analysis and research reports and offering other lines' services. To reduce volatile transactions, investment banks diversify services by changing their core offering and providing innovative investment services in financing transactions, changing the services portfolio to focus more on particular services, and improving their core services through a sophisticated IT system. In custody services line, investments banks changed their core offering to maintain different collaterals, provide innovative services driven by technology, and provide more complementary service that are not offered by other banks.

Only one investment bank chose to terminate an investment product in asset management line. It is not common practice to terminate an under-performing product/service within this industry. Rather, banks choose to improve the performance of the fund by changing investment's assets class, altering structure and management costs, and/or changing the terms and conditions. Terminating an investment product could be costly and time consuming for banks and could jeopardise their reputation.

Customer needs are assessed in order to identify offering opportunities – either not currently offered or the offering is performing incompetently (Eyring et al., 2011; Weill & Woerner, 2013). In Asset management, investors have certain characteristics such as investment orientations, degree of risk, required return and investment knowledge. Because of the changing investor objectives, investor needs are unique for each line. Banks change their offering based on changing clients' objectives. Investor needs change from requiring fixed income investments, multiple-asset class, high-return with considering risk profile, to different underlying assets such Sharia-compliant products. Investment banks innovate their business models by moving away from product-centric approach to investors-centric approach.

In Investment banking, investor objectives included acquiring private firms, achieving high-return acquisition, speeding up the execution of transactions, getting the best deal pricing and making particular deals such as IPO. To innovate brokerage business model, banks made changes such as providing margin lending, reducing the 2 day settlement cycle, providing commission discounts, enhancing the trading system to speed up transactions and customizing offering such as market data and professional reports.

Unlike many other industries, investment banks provide several services that target all available segments of potential clients or investors. Clients are classified according to their legal status as either individual, companies, investment institutions, financial institutions or government agencies. Some banks segment their investors according to needs and objectives, risk levels and investment products structure conventional or Islamic. Investment banks target their investors depending on their value of investment portfolio, value of trading, value of transactions, industries and geographical location. There is a clear overlap among target clients in asset management and brokerage lines in which all targeted clients are either individuals or institutions. On the other hand, targeted clients in investment banking and custody services are centered on financial entities, corporates and institutions.

6.4.2 CHANGING OPERATIONAL VALUE ACTIVITIES

After changing value proposition activities, investment banks tend to change operational value activities in their pursuit of business model innovation. A number of assets and activities are used for the operation of all lines including human resources, finance and accounting, and information systems infrastructure. Also, compliance and risk management are required for all lines, and they tend to be provided from one independent source within an investment bank.

Each business line has different assets, operations and back office functions. Compared to other business lines, brokerage is the most asset-intensive line and investment banking is the line with the least capital expenditure in assets. In changing asset management business model, investment banks change the key process by providing ongoing reports to the clients created by asset managers, and outsourcing the core process of managing investment funds to sub-asset managers. However, investment banks change the brokerage process by developing an IT system that facilitates the opening of new accounts, and manages the process of margin lending collaterals. Investment banking line uses the IT system to accelerate IPO subscriptions and automate time-consuming procedures such as collection and distribution the funds. This is supported by work of Sinfield et al. (2012) demonstrating that business model innovation can be achieved through termination, extension, revision or adding process to realize new mechanisms for value creation.

To keep the costs to a minimum, investment banks changed their business models by outsourcing key assets such as trading platform. According to McGrath (2010), outsourcing may help firms to reduce the complexity of operations and infrastructure investments. Other support functions such as recruitment, maintenance, security, internal auditing, and legal services among other services have been outsourced. Some services are also performed by commercial banks for annual fees. This allows investment banks to focus on their core offering and change their partners' network when needed. For example, changing service delivery by sub-asset managers and new international alliances (asset management), changing partner delivering consulting services (investment banking), and changing the supporting partner (custody services). This is in line with the literature where value is co-created through contractual connections taking advantage of others' expertise and resources (Yunus et al., 2010).

Investment banks across all business lines revealed that this change toward outsourcing has several justifications to put into effect and can be concluded as follows:

- Due to the nature of structure costs being fixed, firms try to outsource some functions and convert costs from fixed to variables. It enhances firm's agility to reduce cost in the times of recession as the required activities will be aligned with business size with the ability to terminate contracts or negotiate on different terms and prices.

- Due to regulatory force, competition and rapid technological development, Investment banks are unable to retain platforms built in-house because huge fixed costs
- Due to highly technical functions in most investment banks activities, it enhances the quality of performing activities delivered by professional service providers. It gives investment banks the opportunity to focus more on its core business by outsourcing non-core activities or functions.
- Because of lacking the expertise in the market and increasing costs to hire them, firm tend to outsource some functions to get the required quality of services and maintain performing activities based on the industry standards.
- It creates investment or business opportunities through strategic alliances with partners.

Choosing distribution channels (Teece, 2010), uncommon distribution channels (McGrath, 2010) or cross channel strategy (Cao, 2014) are critical to achieving business model innovation. Investment banks change their operating value activities by changing their distribution channels. To keep the costs of operating and infrastructure down, investment banks moved away from investment centres and branches to electronic channels through their trading platforms. Although investment banks can use any electronic channels, there is a regulatory requirement to meet investors and clients face-to-face in order to verify their identity and sign agreements.

Operational risk management within investment banks is very important whether before or after investment products/services provided. It should be effective to protect the interests of the both investment bank and investors. If operational risks are high, it means that at certain point the unit business model will not achieve the expected profitability in long term. Upgrading risk management practice when innovating business models is a must to maintain investment bank's reputation and integrity and avoid costly violations.

6.4.3 CHANGING HUMAN CAPITAL ACTIVITIES

Surprisingly, investment banks make the least changes in human capital activities. Table 6.5 in the next section highlights why human capital activities remain unaffected.

Investment banks are characterized by a few numbers of staff employed in each business line. To change investment banks' business models, skills and competencies was the only activity that needed changing. This activity change was needed in two lines namely asset management and investment banking. In asset management line, investment banks tend to develop their existing competencies to deal with and manage new investment products. If these competencies are difficult to develop internally, investment banks tend to hire agents to deal with financial analysis, feasibility studies, sub-asset management, and financial due diligence. Asset management and investment banking need specific skills, qualifications and experiences in order to provide their services.

The ability of staff to work efficiently and reduce the risk of errors increases cash flow investment funds' cash flow and investment banking transactions. Thus, competences' element plays a vital role to make decisions effectively, timely and to investors' and clients' interest. The cost and time are also considered to determine the mechanisms to attract competencies and skills to investment banks. Attracting expertise from the industry shortens the time for operations but requiring greater costs. On the other hand, attracting less experienced agents requires more time to train them with less cost.

This is in line with the literature where new competencies, teams, and talent are essential for a business to acquire a new source for value creation (Amit & Zott, 2010), or change its existing business model (Smith et al., 2010, Laurie & Harreld, 2013; Martin, 2014). Moreover, executives involved in business model innovation tend to upgrade their existing staff skills and competencies and seek new staff or skills (Govindarajan & Trimble, 2011; Bock et al., 2012; Mezger, 2014).

6.4.4 CHANGING FINANCIAL VALUE ACTIVITIES

Understanding the financial activities is critical since changes in business models will affect business performance margins or costs (Demil & Lecocq, 2010; Sosna et al., 2010; Sorescu et al., 2011). Investment banks innovating their business model change multiple financial value activities. Revenue streams and cost structure activities were changed in order to innovate business models in all investment banks lines.

In asset management line, investment banks change their revenue streams from fixed-fees model to sharing-fees model. Similar to asset management, brokerage line revenue streams varied from commission-based model, fees-based model, and financing-based model. Because brokerage commissions are set by the authority, brokerage house change revenue stream activity by introducing discounts into the commission-based model. Furthermore, financing-based model was employed where most revenue streams come from margin lending rather that trading commissions. In investment banking line, changes in revenue streams occur by combining a number of models: fixed-fees, transaction-based, and success-based models. In custody services, alternative revenue streams were pursued including fee-based model as a percentage of assets under custody and fixed-fees model.

Investment banks tend to have fixed costs regardless of their operations. These costs include salaries, compensations, utilities, rentals, professional consulting fees, transaction partner fees, marketing and commissions expenses. However, revising the cost structure is a prerequisite for any business model innovation (Wirtz et al., 2016). In asset management line, banks chose to work with sub-asset managers to decrease the cost of fund management. In brokerage line, trading platform, system maintenance and support mount to a significant cost. According to Tongur & Engwall (2014), business models driven by technologies should develop new value capture techniques. Delivering services and distribution channels through the trading platform decreased the cost of managing collaterals and reduced the costs associated with the complexity of carrying out tasks in brokerage line. This change led to reduce the cost as branches and brokerage staff was minimized significantly. In investment banking, the process with a labor intensive process was changed through developing an IT system to perform such complex task. In asset management and brokerage, expenses of customer acquisition are costly represented in sales commissions. Investment banks adopt technologies, Internet and electronic marketing means attract clients and helps to grow brokerage trading values and asset under management

Profit margins are roughly symmetrically determined by all business lines, whether based on market-based model, competitors' margins, product/service cost or economies of scale. All is related to product quality, whether standard or differentiated from competitors' offering. Storbacka (2011) argues that achieving higher margins is based on the value created to the clients, not the costs incurred. In line with literature, Taran et al. (2015) identified that profit formula was changed in all business model innovations.

All business lines in investment consider the margin of profitability as a natural result of the revenue model decision, costs incurred and the pricing that is developed. In line with literature, the revenues and costs are the consequences of both continuous and radical changes of business models which eventually determine profit margins (Demil & Lecocq, 2010). In addition, the capture value mechanism is considered first with value proposition when change business models in different context (Landau et al., 2016).

6.4.5 UNCHANGED BUSINESS MODELS ACTIVITIES

Our findings indicate that a number of activities remained unchanged including perceived customer value, organisational learning, incentives, training, and cash-flow. Table 6.5 summarises why these activities remain unaffected.

Table 6.5 Reasons for Unaffected Investment Banks' Activities

Activities	Reasons why activities were not affected
Perceived customer value	• The close relationship between brokers and traders make it easy to attain perceived customer value through direct communication. • To facilitate transactions, investment bankers must directly engage with clients. Hence, bank agents continuously feedback investors' perceptions.
Organisational learning	• Due to 'China Wall' between the lines in order to adhere to industry regulations, learning from other lines is non-existent to avoid conflict of interest and regulatory heavy penalties. • Investment banks tend to arrange their business lines into small teams facilitating learning and knowledge transfer.
Incentives	• Investment banks have a programme of incentives and compensation both financial and non-financial. These programmes and incentives are generous and large compared to other industries. • These incentives and compensation are subject to monitoring by investors and regulators. Thus, changing such programmes can be difficult to achieve.
Training	• To develop talent, investment banks have very well developed training programmes to meet their current needs. • Regulatory legislation ensures that agents have the required industry qualifications to carry out specific tasks. • Investment banks can recruit talent if their existing agents cannot be trained or it would cost the bank more to train existing agents.

Cash-flow	• The regulators require investment banks to:
	    o Ensure that the minimum capital adequacy of the bank is maintained periodically in accordance with rules. Thus, any change in this activity may affect the capital adequacy ratio.
	    o Put in place adequate guarantees to ensure that their dues are collected especially for margin landings activities in Brokerage. Therefore, the change in the pattern of these cash flows involves considerable risks and requires regulatory approval.
	• In asset management, brokerage and custody services, most banks guarantee access to cash flows either simultaneously after the transaction is executed, or under agreed arrangements and the authority supervision.

Source: Developed by (the author)

6.5 CONCLUSION

This chapter discussed the drivers of investment banks business model innovation. While some drivers influenced business model innovation in all lines, in two lines, and in one line, other drivers did not affect any of the investment banks' business models. This chapter has shown how investment banks change their multiple business models either through changing one activity (in the case of asset management), or multiple activities for the other three lines. This chapter has discussed the activity changes for each line by changing value proposition, operational value, human capital and financial value activities.

Finally, this chapter has shown that not all business model activities need to change for investment banks to innovate their business models.

CHAPTER 7: CONCLUSION AND FUTURE RESEARCH

7.1 INTRODUCTION

This research aimed to exploring how investment banks perform business model innovation. For that, a framework of business model innovation was developed, detailing components and business activities that could be used to create, capture and deliver a firm's value proposition. In addition, investment banks' multiple business models were mapped and possible alternatives to innovating their business models were explored. The drivers forcing investment banks to innovate their business models were also explored, highlighting the changes associated with business model components and/or activities.

This closing chapter starts with an overview of this research, followed by the conceptual and empirical contributions of this study, and highlighting the limitations of this research. Then, areas of future research are presented in terms of approaches, degrees and measurements of business model innovation. Finally, implications of this research for investment banks' senior executives, analysts, and regulators are detailed at the end of this chapter.

7.2 OVERVIEW THE RESEARCH

The work in each chapter is discussed briefly in this part to shed light on the conclusions and identify the major contributions of this study.

The first chapter gives a general background of this research and its rationale. The importance as to why studying business models innovation is presented. The debate shows that although there are many studies that examined business models, there is a fragmented conceptual foundation in this area. Diverse definitions, theories and frameworks are developed to serve particular aims and contexts. Also, it was clear that a number of questions remain unanswered including: what value proposition, value creation, and/or value capture components and activities can be included in the study of business model innovation; which business model components and/or activities change as a result of business model innovation? And what are the drivers of business model innovation in firms managing multiple business models?

In order to study investment banks' business model innovation, the Saudi Arabian context was outlined in the second chapter. As of November 2015, there were 88 authorized persons with diverse licences competing in the investment banks industry (CMA, 2015b) with only 28 authorized persons that have full licenses to provide all investment services. These services include asset management, brokerage, investment banking and custody services. Authorised persons have the authority to select which license(s) to hold without a need to run all services. Saudi investment banking industry had a trading value in the stock market of $572.4 billion and the size of private and mutual investment funds managed by asset managers was $43.2 billion in 2014. The availability of secondary data such as investment banks annual and financial reports, and regulator statistics for the industry helped the researcher to conduct this study.

To answer the first research question, the third chapter presented a systematic literature review to identify value proposition, value creation, and/or value capture components and activities that can be included in the study of business model innovation. The rationale for conducting the systematic review was highlighted. It covered the period 2010-2016, and included the three and four star journals ranked by ABS (2010). A final set of 219 articles was 219 were reviewed using a protocol that included areas of innovation (i.e. components, elements, and activities), theoretical perceptions and conceptual frameworks. From the review, the components of business model innovation included value proposition, operational value, human capital, and financial value. Several activities were identified for each component. Moreover, the drivers of business models innovation were identified. These drivers force firms to change their business models (Sosna et al., 2010; Zott et al., 2011). In order to understand business model innovation, both drivers forcing change in business model, as well as the activities changes must be comprehended.

The fourth chapter shed light on the conceptual framework, philosophy, paradigm, and methods utilized in this study. Developing an abstract theoretical framework from the reviewed literature is essential to establish alignment between conceptual assumptions and empirical interpretations (Leshem & Trafford, 2007). In this study, the epistemological paradigm used is to understand what we know. For this purpose, an interpretive exploratory research was chosen to provide an in-depth understanding of business model innovation. Using the interpretive paradigm is helpful in the context of business and management topics including executives' perceptions and thoughts. A multiple in-depth case study strategy was selected to explore how investment banks performed business model innovation. As the topic of this study is still under development and started flourishing since 2000's (Demil & Lecocq, 2010), case study strategy is ideal when the focus is on contemporary issues (Yin, 2009). Semi-structured interviews were chosen to collect the data. As the main concern of this study is to understand meanings and thoughts of respondents attributed to various phenomena (Saunders et al., 2016), semi-structure interviews facilitate the researcher's ability to investigate replies and to explore new insights. Furthermore, the secondary data were used to verify and complement our primary data and provide us with the full picture of business model innovation in investment banks.

The fifth chapter presented the findings from the case studies. This chapter mapped the investment banks' business models and explored the drivers and their impact on changing these business models. By applying the proposed framework of business model innovation, this chapter presented evidence in relation to the drivers of business model innovation, their likelihood to drive innovation, and the associated activity changes in each business line of the investment banks. A business model emerged for each investment bank line confirming that investment banks manage multiple business models (a business model for each business line). To innovate these multiple models, investment banks respond to particular economic, industry and firm drivers by changing specific business model activities.

The sixth chapter discussed the drivers of investment banks business model innovation. While some drivers influenced business model innovation in all lines, in two lines, and in one line, other drivers did not affect any of the investment banks' business models. This chapter highlighted how investment banks change their multiple business models either through changing one activity (in the case of asset management), or multiple activities for the other three lines. This chapter discussed the activity changes for each line by changing value proposition, operational value, human capital and financial value activities. Further, this chapter demonstrated that not all business model activities need to change for investment banks to innovate their business models.

7.3 CONCEPTUAL AND EMPIRICAL CONTRIBUTIONS

Contradictory approaches are suggested in the literature to carry out business model innovation. One approach recommends that innovative business models can be developed through an evolutionary process of incremental changes to business model elements (e.g. Demil & Lecocq, 2010, Dunford et al., 2010; Amit & Zott, 2012; Landau et al., 2016; Velu, 2016a). The other way, mainly practice-oriented, suggests that alternative business models can be explored through a revolutionary process by replacing existing business models (e.g. Bock et al., 2012, Iansiti & Lakhani, 2014). The fragmentation of the literature is due to using numerous theoretical foundations. Scholars have drawn from entrepreneurship (e.g. George & Bock, 2011), information systems (e.g. Al-debei & Avison, 2010), innovation management (e.g. Dmitriev et al., 2014), marketing (e.g. Sorescu et al. 2011), and strategy (e.g. Demil & Lecocq, 2010). Also, this fragmentation is due to focusing on different forms of business models in different industries. Studies have focused on specific types of business models such as digital business models (e.g. Weill & Woerner, 2013), service business models (e.g. Kastalli et al., 2013), social business models (e.g. Yunus et al., 2010), and sustainability-driven business models (Esslinger, 2011). Moreover, different industries have been examined such as airline (Lange et al., 2015), manufacturing (Landau et al., 2016), newspaper (Karimi & Walter, 2016), retail (Brea-Solís et al., 2015), and telemedicine (Peters et al., 2015).

Since Zott et al. (2011)'s first wide-ranging review of business model, a number of reviews were published recently (George & Bock 2011; Schneider & Spieth, 2013; Klang et al., 2014; Spieth et al., 2014; Wirtz et al., 2016). Conceptually, this systematic literature review constructs on and expands the extant literature in at least three ways. First, the earlier reviews that mainly focused on the ‘Business Model’ concept (George & Bock, 2011; Zott et al., 2011; Wirtz et al., 2016), this systematic literature review focuses on exploring ‘business model innovation’ and highlights on new approaches through which companies alter their current business model(s) by modifying their value proposition, value creation, and value capture. Additionally, previous conceptualisations do not provide an obvious answer as to how firms change their business models. This review aimed to bring together these contradictory ways (i.e. evolutionary versus revolutionary perspectives) and provide direction as to the approaches through which business model innovation can be carried out. Last but not least, compared to recent reviews on business model innovation (Schneider and Spieth, 2013; Spieth et al., 2014), which have mentioned some aspects of innovation such as streams and motivations of the current research, our representation explored the innovation areas and alternative where innovative business models can be developed. Taking Teece’s (2010) suggestion, “*A helpful analytic approach for management is likely to involve systematic deconstruction/ unpacking of existing business models, and an evaluation of each element with an idea toward refinement or replacement*” (pp.188), this study develop a theoretical framework of business model innovation.

Empirically, this study contributes to studies that call for having both internal and external perspectives to business model innovation (e.g. Demil & Lecocq, 2010; Sorescu et al., 2011). A limited number of studies show the link between the external drivers and internal changes of business models. This study does not only show the drivers that force investment banks to change their existing business models, but also which activities did investment banks consider when responding to particular drivers.

Moreover, this study delves into the previously unexplored area of managing multiple business models. Previous studies have looked at dual business models in times of business transformation from old business models to new ones (e.g. Demil & Lecocq, 2010; Cao, 2014; Khanagha et al., 2014; Osiyevskyy & Dewald, 2015a; Lange et al., 2015). However, this study looked at managing multiple business models in industry where firms do not have a choice but to run these multiple business models. The context of this study made it possible to explore innovation in different investment banks' lines: asset management, brokerage, investment banking, and custody services.

7.4 STUDY LIMITATIONS

Although this study has made several conceptual and empirical contributions, it has some limitations that need considering when using the results of this study. First, the conceptual framework was built through a systematic review of the literature for the years 2010-2016. Focusing on papers post-2010 was necessary to build on Zott et al. (2011) study that comprehensively reviewed the literature up to 2010. Second, the systematic review included only refereed to articles that were ranked three and four stars journals by Academic Journal Quality Guide Version 4 (Harvey et al., 2010) the academic Journal quality guide version 4 in order to boost the quality of the review. The systematic review did not include two and one star outlets, books and conference articles in which significant arguments might be missed. Third, the activities included in the theoretical framework of business model innovation (Chapter 3) are not exhaustive and other possible activities could have been excluded. Fourth, although qualitative face-to-face interviews were collected from 10 investment banks operating in all sectors (brokerage, asset management, investment banking, and custody services), the findings of this study cannot be generalised. Studies in this area could conduct larger surveys of investment banks to validate the proposed framework and the map of investment banks' business model innovation. Fifth, this study focused solely on investment banks, other industries could also be examined using both qualitative and quantitative research tools. Sixth, the findings of our research come from a perspective of a developing country. It will be interesting to compare this to other developing and developed countries. Seventh, data was collected in 2015 asking respondents to recall changes to a number of business models – their answers might be incorrect or inaccurate. Researchers in this field may conduct longitudinal studies and record events at different times to improve the level of accuracy in the collected data. Eighth, the interviews were conducted in a time where investment banks were going through significant legislative, regulatory, policies, structural changes and turbulent environment. This might have deterred respondents from fully sharing their experiences. Conducting similar study in later years may derive different findings since the pressure on investment bankers has been lifted recently. Ninth, data was collected only from senior executives of investment banks. Extending data collection to include middle-management and bank agents would enrich the dataset by accounting from other stakeholders' perspectives.

7.5 AREA OF FUTURE RESEARCH

7.5.1 APPROACHES OF BUSINESS MODEL INNOVATION

Experimentation has been advocated as a way to exploit opportunities and develop alternative business models before committing additional investments. Several approaches have been developed to assist in business model experimentation (mapping approach, discovery-driven planning, and trail-and-error learning). This study developed investment banks' business model mapping to instigate and study business models though depicting the required and alternative activities. Nonetheless, little is known about the effectiveness of these approaches and whether firms have developed their own tools to experiment with alternative business models. An exploratory study to find advantages, disadvantages and characteristics for each approach might help firms to choose the suitable one for their context.

Although business model innovation tends to be characterised with failure (Christensen et al., 2016), not much has been established on failing business models. It is interesting to find out how firms determine a failing business model and what organisational processes exist (if any) to evaluate and discard these failed business models. Empirical studies could examine how firms experiment with alternative business models and how they treat failing business models.

Another way to develop alternative business models is through open innovation. Although different categories of open business models have been identified (Frankenberger et al., 2014; Taran et al., 2015; Kortmann & Piller, 2016), their effectiveness is yet to be established. Further research is needed to examine when open and/or close business models are most effective. To further understand the competitive dynamics, future studies could examine the determinants of a company's choice of open and/or close business models and the impact of such choice(s) on the eco-system as a whole.

How companies extend their existing business model, introduce additional business model(s), and/or replace their existing business model altogether remain to be unexplored. Future research is needed to explore the strategies adopted by firms to extend their existing business models as a response to disruptive business models. In introducing additional business models, Markides (2013) suggests that a company will be presented with several options to manage the two businesses at the same time: create a completely separate business unit, integrate the two business models from the beginning, or integrate the second business model after a certain period of time. Finding the balance between separation and integration is of vital importance. Further research could identify which of these choices are most common among successful firms introducing additional business models, how is the balance between integration and separation achieved, and which choice(s) prove more profitable. Moreover, very little is known on how firms replace their existing business model. Longitudinal studies could provide insights into how a firm adopts an alternative model and discard the old business model over time. It may also be worth examining the factors associated with the adoption of business model innovation as a response to disruptive business model.

7.5.2 DEGREE OF BUSINESS MODEL INNOVATION

Innovative Business models can be developed through varying degrees of innovation from an evolutionary process of continuous fine-tuning to a revolutionary process of replacing existing business models. Recent research shows that survival of firms is dependent on the degree of their business model innovation (Velu, 2015; Velu, 2016b). This study shows that the degrees of business model innovation can vary from modifying a single element in the case of asset management business model to changing multiple elements simultaneously in other cases such as brokerage business model. Further research in needed to investigate how firms go even further by not only changing elements within the business model, but also changing the interactions between business model elements.

In changing the interactions between business model elements, further research is needed to explore how business model elements are linked and what interactions' changes are necessary to achieve business model innovation. Moreover, the question of how firms sequence these elements remains poorly understood. Future research can explore the synergies created over time between business model elements. According to Dmitriev et al. (2014), we need to improve our understanding of the connective mechanisms and dynamics involved in business model development. More work is needed to explore the different modalities of interdependencies among business model elements and empirically test such interdependencies and their effect on business performance (Sorescu et al., 2011).

There is little guidance in the literature on how firms change multiple business model elements simultaneously. Landau et al. (2016) claim that firms entering emerging markets tend to focus on adjusting specific business model components. Further, it is unclear which business model elements need configuring, combining and/or integrating to achieve a company's value proposition. Furthermore, the question of which elements can be "bought" on the market or internally "implemented" and their interplay remains unanswered (DaSilva & Trkman, 2014). Casadesus-Masanell and Ricart (2010) argue that "*… there is (as yet) no agreement as to the distinctive features of superior business models*" (pp. 196). Further research is needed to explore the distinctive elements of high-performing business models.

7.5.3 MEASURING INNOVATION OF BUSINESS MODELS

It is surprising that the link between business model innovation and organisational performance has rarely been examined. Changing business models has been found to negatively influence business performance even if it is temporary (McNamara et al., 2013; Visnjic et al., 2016). Contrary to this, evidence show that modifying business models is positively associated with organisational performance (Cucculelli & Bettinelli, 2015).

Empirical research is needed to operationalise the various degrees of innovation in business models and examine their link to organisational performance. Longitudinal studies can also be used to explore this association since it may be the case that business model innovation has a negative influence on performance in the short term and that may change subsequently. Moreover, it is not clear whether high performing firms change their business models or innovation in business models is a result from superior performance (Sorescu et al., 2011). Further studies are needed to determine the direction of causality. Another link that is worth exploring is business model innovation and social value, which has only been explored in a few studies looking at social business models (e.g. Yunus et al., 2010; Wilson & Post, 2013). Further research is needed to examine this link and possibly examine both financial and non-financial business performance.

The outperformance of various firm's competing in the same industry can be explained by uniqueness of their business models (Morris et al., 2013; Velu & Stiles, 2013). Other scholars argue that the consequences of innovating business models as a result of drivers explain firms' performance (e.g. Gambardella & Mcghahan, 2010; Sebastiani et al., 2013), future growth (e.g. Gilbert et al., 2012), enterprise's value (e.g. Eyring et al., 2013; Henerth et al., 2011), firm's stock price (e.g. Amit & Zott, 2012) competitive advantages (e.g. Sorescu et al., 2011; Teece, 2010) and strategic flexibility (e.g. George & Bock, 2011). However, measuring the general performance of innovative business models for firms is insufficient to identify their effectiveness. Future research could look at activity or a set of activities or cluster, and measure different firms' performances to determine which activities need re-configuring and/or developing from scratch. Assessing activities' performance helps to upgrade and innovate business models on continuous basis.

Although previous studies focused on the relative performances of competitors, the construct measurement of value creation and capture is neglected (George & Bock, 2011). Further research is required to utilize and develop available measurement tools (e.g. balanced scorecard) to measure business models activities during and after business model innovation.

7.6 STUDY IMPLICATIONS

7.6.1 IMPLICATIONS FOR INVESTMENT BANKS' SENIOR EXECUTIVES

This study provides senior executives with a map of all components and activities to navigate business model innovation. Senior executives managing multiple business models within one investment bank can now be guided through which activities can innovate a line's business model. This study also provides senior executives with the list of most influential drivers of business model innovation. Combining both drivers and associated business model changes empowers executives to carry out business model innovation knowing that other investment banks have already done so.

7.6.2 IMPLICATIONS FOR ANALYSTS

Financial statements and competitive environment analysis are no longer the only way to evaluate businesses and predict their future performance. During the global financial crisis in 2007-2008, many investment banks collapsed, most notably the Bear Stearns and Lehman Brothers in the U.S. One of the main reasons for their failure could be attributed to the ambiguity and complexity of their business models. To improve their investors' and analysts' understanding of investment banks business models, this study developed a map of investment banks' multiple business models. This map could be used by investors and financial analysts to complement their financial and competitive analyses. Also, this map could be used as a tool to carry out a comparison of different investment banks typologies. By using this map, analyst could demystify the complexity of activities, identify risks for each activity, and rationalise the different financial and operational performances.

7.6.3 IMPLICATIONS FOR REGULATORS

Regulators have tightened their investment banks' legislation in order to reduce risks of recurring financial crises. Some of these regulations are ill-informed and make it impossible for investment banks to operate. Having a clear map of the different activities, where innovations can take place, and in which lines, regulators can legislate and/or change existing legislations based on the business model innovation map. This tool can help regulators navigate through the different business lines, determine any occurring changes, communicate these changes with investment banks, and legislate accordingly. Compliance of investment banks can also be assessed using the map.

7.7 CONCLUSION

This chapter provided a brief summary of work presented in each chapter of this thesis. Conceptual and empirical contributions as well as the limitations of this research were highlighted. To make further contributions to this area of research, future studies were suggested in relation to approaches, degrees and measurements of business model innovation, and several implications were noted for investment banks' senior executives, analysts, and regulators

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APPENDICES

APPENDIX 1: SEMI-STRUCTURED INTERVIEWS QUESTIONS

Part	Themes	Questions
Introduction	General	• Could you please tell me about the strategy of your firm? • What are the long-term objectives of your company? • How are you planning to achieve these objectives?
Value Proposition	Activities	• What products (or services) do you offer? • How is that different from what is available in the market? • Could you please tell me who your targeted customers are? • How do you satisfy your customer needs? • Can you tell me what your customers think about your company compared to others within the industry?
	Drivers	• In the last five years, did you change the products (or services) you were offering? • If yes, o Could you tell what exactly did you change? o What prompted the change you initiated? o Was this change internally driven (executives or culture within the organisation) or externally driven (customer pressure)? Could you please elaborate? o In the industry, were their particular factors that influenced this change (such as new technology, new entrant, supplier pressure, customer expectations … etc.)? Could you explain further? o e) Has this change happened because of government regulations, stakeholder pressure, the economic downturn, or global competition? Could you please elaborate?
Value Creation	Activities	• In terms of operations, could you please tell me what are your key assets? • What are the key processes that your organisation undertakes to deliver the products (or services) you are offering? • Could you specify the channels you are currently using to deliver your core offerings? • Who are the partners (suppliers) helping you to deliver your products
	Drivers	• In the last five years, did you change any aspect of your operations? • If yes, o Could you tell what exactly did you change? o What prompted the change you initiated? o Was this change internally driven (executives or culture within the organisation) or externally driven (customer pressure)? Could you please elaborate? o In the industry, were their particular factors that influenced this change (such as new technology, new entrant, supplier pressure, customer expectations … etc.)? Could you explain further? o e) Has this change happened because of government regulations, stakeholder pressure, the economic downturn, or global competition? Could you please elaborate?
Human Capital	Activities	• Could you please tell me whether you have the talent needed to carry out the changes mentioned earlier? • Are their specific gaps in the skills' set need to carry out the changes? • Have there been instances in the past where you have carried out the changes and you can recall using that experience in the changes you are currently undertaking? Could you explain further? • What sort of incentives do you have in place that motivates employees to carry out changes? • What Kind of training do your employees undertake? Do the changes mentioned earlier require the training to take place? In what way?
	Drivers	• In the last five years, did you make changes to your human resources? • If yes, o Could you tell what exactly did you change? o What prompted the change you initiated? o Was this change internally driven (executives or culture within the organisation) or externally driven (customer pressure)? Could you please elaborate? o In the industry, were their particular factors that influenced this change (such as new technology, new entrant, supplier pressure, customer expectations … etc.)? Could you explain further? o e) Has this change happened because of government regulations, stakeholder pressure, the economic downturn, or global competition? Could you please elaborate?
Value Capture	Activities	• Could you possibly tell me how is the firm currently doing in terms of performance compared to other firms in the industry in which you operate? • Could you please tell me about your revenue model? • What is the cost structure you have in place? • Is the cash-flow a problem in the industry you are currently operating in? If yes, how do you deal with this issue? • What is the level of your profitability compared to other companies in your industry? • How do you make sure that you stay profitable?
	Drivers	• In the last five years, did you change any aspect of your finances? • If yes, o Could you tell what exactly did you change? o What prompted the change you initiated? o Was this change internally driven (executives or culture within the organisation) or externally driven (customer pressure)? Could you please elaborate? o In the industry, were their particular factors that influenced this change (such as new technology, new entrant, supplier pressure, customer expectations … etc.)? Could you explain further? o e) Has this change happened because of government regulations, stakeholder pressure, the economic downturn, or global competition? Could you please elaborate?

APPENDIX 2: A RESEARCH PRESENTATION AND AN INFORMED CONSENT FORM

PART 1: A RESEARCH PRESENTATION

Dear XXX,

Thank you for initially agreeing to participate in this study.

I am ***Ahmed Binsaif*** a PhD student In University of Exeter in United Kingdom and doing a research in "*Investment Banks' Business Model Innovation: Evidence from Saudi Arabia*".

The research's aim is to investigate business models in the industry and how Investment banks innovative their business models. In addition, it targets to determine the drivers of business model innovation. Given this issue, it is, further, we would like to understand how business models' activities are changed as a result of business model innovation drivers.

It has been adopted semi-structured interviews in order to collect data representing the principle method to fulfil the requirements to attain this study's objectives. The research requires between 45 and 60 minutes for each interview with contributors as noticed in this sort of studies. According to the timeline, interviews are aimed conducting by September 2015.

As the primary data will be collected through interviews, the researcher assures that the confidentiality will be maintained at all stages of this study. The investment bank and participants will be anonymous and unknown.

Interviews will be recorded and transcribed for the purpose of analysing and interpreting. The data is only used for the purpose of this study and no third parties are given access to it.

The participation in this study is entirely voluntary and the participant has the right to refrain from answering any question or withdrawing from the interview at any time without giving a justification.

This research is supervised by Dr Ben Ramdani the director of postgraduate research - Management studies in University of Exeter. If you require any information, please do not hesitate to contact him on this e-mail (B.Ramdani@exeter.ac.uk).

Kind Regards,

Ahmed Binsaif
University of Exeter Business School
Email: aaob201@exeter.ac.uk

PART 2: AN INFORMED CONSENT FORM

- I confirm that I have read and understand the above information and
- I have been given the opportunity to ask the questions about the study and
- I understand that I have the right to refrain from answering any question or withdrawing from the interview at any time without giving a justification and
- I understand and agree that the interview will be recorded and
- I agree to participate in this study voluntarily.

Participant Name:
Job Position Title:
Investment Bank Name:
Participant signature:
Date:

APPENDIX 3: AN INFORMATION LETTER FOR THE STUDY

7th May, 2015

Field Trip

Dear Sir or Madam,

This is to confirm that Ahmed Binsaif, PhD candidate at the University of Exeter Business School, will be conducting his field trip in Saudi Arabia from mid-June for the duration of 3 months. In this trip, he will be conducting interviews with key executives at investment banks.

Please do not hesitate to contact me if you need further details.

Truthfully yours,

Dr Ben Ramdani
Director of Postgraduate Research

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