Creating Value through Business Models in Open Source Software

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ABSTRACT

This paper explores how the use of a business model enables value creation in an Open Source Software (OSS) environment. Open Source offers one possibility for firms that are continuously looking for new opportunities and ways of organizing their business activities to increase the amount of value they can appropriate through their capabilities. The authors argue that this value can be attained by analysing value creation logic and the elements of business models. They demonstrate how value is created through business model elements and provide a list of questions that can help managers in their considerations with Open Source Software.

Keywords: Business Models, Open Source Software (OSS), Organization, OSS Context, Value Creation Logic

INTRODUCTION

Firms have recognized an increasing need to improve their ability to change the way their business operations are organized. Thus, they assess new business opportunities and evaluate them in terms of whether they would suit the firm’s business portfolio. A business model is considered a tool for exploring new business ideas and capturing the essential elements of each alternative. It is a construct for mediating technologies’ development and economic value creation; in other words, it is an abstract representation of the business logic of a company. Open Source (OS) is a phenomenon that almost every company

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has encountered in the last ten years. It offers opportunities for the creation of new business and, thus, exploring the types of alternatives it may offer for value creation is a subject of growing interest.

We begin the paper with a brief review of the discussion on value creation and business models. The ideas thus presented concerning value creation and business models are applied and analysed in the special context of the Open Source Software (OSS) environment. We argue that a general business model typical of a proprietary software business is also applicable in the context of OSS. However, in the OSS context, the elements of such a business model appear altered and are implemented in a different way than in a proprietary software business. One reason for this is that the value created in an OSS project often cannot be owned by single companies. This argument as to the differences between OSS and proprietary software forms the starting point of our analysis and has been taken into account throughout the paper.

The objective of this paper is to explore how the use of a business model enables value creation within the OSS environment. We argue that this value can be attained by analysing value creation logic and the elements of business models, as profitable business is all about creating value and capturing it properly. Firms are continuously looking for new opportunities and ways of organizing their business activities to increase the amount of value they appropriate via their capabilities. Open Source may offer one possibility for this.

**BACKGROUND**

**Differences between Proprietary and Open Source Software in Business**

The three most salient points separating proprietary and OS software are (1) Open Source and licences, (2) networks and their actors and (3) the customer. Firstly, difference emerges from the openness of source code and licences. Open Source code enables anyone to further develop the original code, and the terms of the licence ensure that the will of the original developer holds. The code can be obtained and improved by anyone with the right skills (Woods & Guliani, 2005). With proprietary software, on the other hand, the source code is not made publicly available and typical licences restrict the utilization of the source code to the commercial supplier of the software only.

Secondly, the openness and availability of the source code means that the value in Open Source projects is created for the network, not for individual companies, other entities or individuals. The business models of the companies involved in Open Source Software projects should be linked to the business models of the other network actors, and perhaps include some components outside the network. Thus, the management of network relationships has a key role in Open Source business (Dahlander & Magnnusson, 2005; West & Gallagher, 2006). The idea is that by openly sharing the software code with others, each actor can perform the parts it is best at,
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