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Abstract

Purpose: It does not always take a heroic CEO to initiate a major transformation such as business model innovation. A middle manager with a personal drive and a sense of need for change may well jump-start this process. This paper aims to offer a simple framework and a set of practical guidelines for engaging the broader organisation in business model search and change activities.

Design/methodology/approach: This paper draws on research in entrepreneurship, organisational change and strategic renewal; develops a set of managerial guidelines; and illustrates those with practical examples.

Findings: Business model innovation is an iterative, dynamic and continuous process of search and change activities. Key practical guidelines to manage this process include understanding the environment, ensuring resources and funding, engaging entrepreneurial individuals, committing senior management, firm orchestration of the change process and involvement of middle management and employees.

Practical implications: The framework allows for structuring a business model innovation and offers key guidelines for the journey, thus enabling an entrepreneurial middle manager to lead the effort.

Originality/value: Despite that business model innovation is normally considered the domain of the CEO, this paper shows that middle managers can also play a key role in the process. The value of the paper lies in the simplicity and practicality of the framework.

Keywords: Organizational change, Strategic renewal, Business model innovation, Framework, Change implementation, Middle manager perspective

Introduction

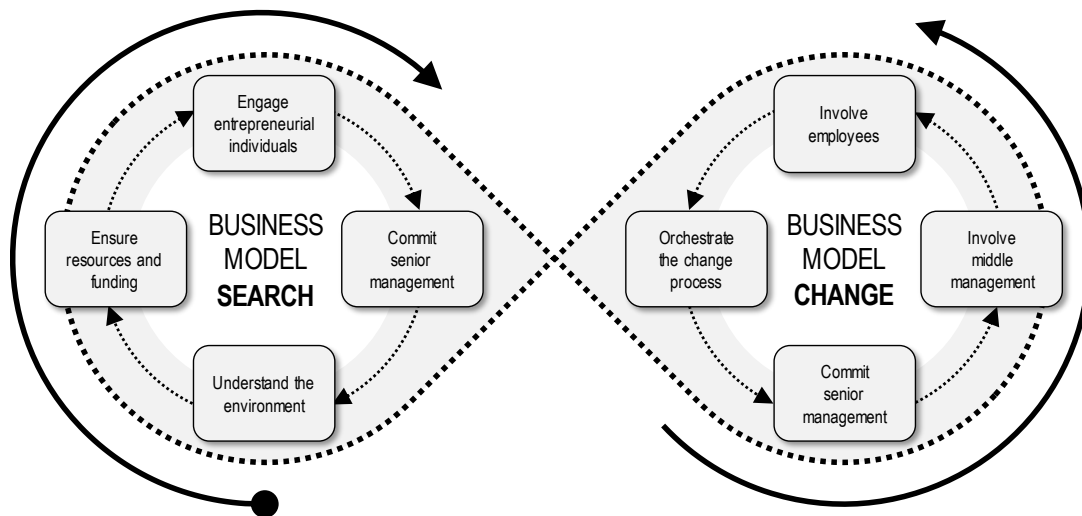
Mature firms regularly confront destabilising events in the marketplace which send ripples into their own operations and cause them to rethink existing business activities. New technologies, competitive upstarts, shifting customer needs and new market opportunities bend and stretch the firms' business models. Whereas a well-working business model tends to lock the firm's core business processes, the activities associated with business model innovation are aimed at dynamizing the status quo.

It does not take a unique CEO to initiate a major transformation such as a business model innovation. A middle manager with a drive and sense of need for change may well jump-start this process. This paper offers a useful framework and a set of guidelines for how managers may engage a broader organisation in business model search and change activities. Each guideline is followed by a practical example.

A simple framework for business model innovation

The term “business model” refers to the set of activities associated with value creation, value delivery and value capture conducted by the focal firm and its collaborators to generate profit. “Business model innovation” is, therefore, a process leading up to a change in these activities or a complete replacement of the existing business model. To help managers respond quickly to increasing environmental dynamics, the business model innovation needs to be viewed as an iterative, dynamic and continuous process of search and change activities, which may be better understood as cycles (see Figure 1).

Figure 1. A basic framework for the process of business model innovation



Rather than following a linear plan, the emphasis is on iterations throughout the entire process. Thus, when a sudden threat or a lucrative business opportunity emerges, a search for a new business model is needed to secure a strategic fit. When the necessary adjustments of the business model are identified, the firm can break free from the existing business routines and change the business model.

Research shows that firms are advised to balance exploration and exploitation activities when confronted with increasing environmental dynamics (March, 1991). The time horizon determines where the weight should shift – “the longer the time horizon used, the more ‘rational’ it is to tilt the balance from exploitation to exploration” (Scott and Davis, 2007, p. 201). Fast strategic decision-makers can improve the firm performance by absorbing real-time information, accepting expert advice, developing alternatives and integrating strategy with tactics (Eisenhardt, 1989). Yet, there is an inherent paradox in hosting both fluidity and stability in one organisation (Schreyögg and Sydow, 2010) that requires constructive friction between change and preservation (Volberda, 1996). By allowing exploratory and exploitative units in the organisation to work independently, an imperfect, less rigid structure can be permitted in the organisation. Following this, it is a good idea to institutionalise change by allowing the firm to reconfigure its capabilities, and thus rebalance the fit with environmental contingencies, referred to as “dynamic capabilities” (Teece et al., 1997).

Business model *search* activities require additional human and financial resources. Where can one find such additional resources? Organisational slack, for one, can provide some ease in the system. Search motivated by slack is “more likely to discover distinctively new alternatives” (Scott and Davis, 2007). Making do with what is at hand often represents another underutilised potential. Discovery-driven experimentation (McGrath, 2010) and collaboration with key stakeholders may unmask new opportunities. Here, lessons learnt from venture capital-backed “lean start-ups” can be useful. Such lessons include the formation of A-teams, prioritisation of high-growth markets, development of products that address real customer pains, quick product iterations based on customer interactions, early market tests with fast and cheap failures, agile product development, stepped financing before the business model is validated and generous investment after validation (Engel, 2011).

Key challenges during business model *change*, on the other hand, imply a change of human mind-sets, skills and behaviours.

Typically, such concerns are considered the domain of senior managers, who must launch major change initiatives such as restructuring, introduction of new units or business model innovation. In practice, however, it may well be the entrepreneurial middle-level manager close to the frontline who receives the early signals from the field and is urged to act. This paper offers guidance for middle managers on how to engage the organisation in business model search and change activities.

Initiating the search for a new business model

To succeed in finding a new working business model, the manager-innovator should understand the environment, ensure resources and funding, engage entrepreneurial individuals and commit the senior management (see Figure 1).

Understand the environment

Firms with a high degree of market sensitivity continuously scan existing and potential markets, thus maintaining an ability to develop a timely response to discontinuous change (Bockmühl et al., 2011). A failure to detect changes in the political environment and engage with the firm’s institutional context may lead to the demise of even the biggest corporations (Dixon and Day, 2010). During the search process, the firm must gather extensive market information.

About a decade ago, the German dental lab industry, comprised of thousands of small and medium-sized firms manufacturing tooth replacements, was undergoing a profound change generated by computer-aided design and manufacturing technology. Technicians were now able to scan and produce customised prostheses through a highly automated process, instead of relying on traditional manual techniques. An empirical study of this industry’s responses to the changes (Bockmühl et al., 2011) found that the firms that systematically searched and collected market information, intensively discussed and evaluated the impact and searched for new markets were able to adjust faster than the companies less conscious of changes outside of their traditional industry and core competences.

Ensure resources and funding

The initiatives to find better business models are of limited value if not backed up by allocation of

resources and funding. The lack of funding limits the opportunities to recruit appropriate and experienced staff for the new business, which tends to block further development (Kanter et al., 1987). Attracting financing to new initiatives can be difficult but demonstrating prior successes can help when arguing with resource allocation committees (Engel, 2011). A way to encourage new ideas is to establish an internal market in which the best ideas win financial support.

Such an internal idea market for employees was established at Novozymes, the Danish industrial biotech company (Lauto et al., 2013). Organisationally, it was an online competition which resulted in two high-growth potential business opportunities. The participants were personally selected and invited to submit their own ideas and rank the proposals of others. The invitation engaged 75 per cent of the 145 potential inventors. After intensive commenting and trading over just 12 days, some 25 ideas made it to the finals. The criteria for the final decision made by the jury, consisting of seven senior officials from R&D and business development, included technical feasibility, originality, customer need, resources, sales potential, competitive advantage, gut feeling about the potential success and the participants' own assigned rank to the idea.

Engage entrepreneurial individuals

New business opportunities may arise from high achievers, and other entrepreneurial individuals are likely to gather around them in a natural way, not by plan or force (Engel, 2011). The diversity of the team's knowledge bases, risk willingness, disciplinary backgrounds, peppered with sufficient resource allocation and differentiated schemes of incentives and rewards have long been recognised as the characteristics promoting motivation for renewal.

Helping employees become more entrepreneurial, however, requires a long-term dedication. This point is illustrated by a major Danish industrial engineering and manufacturing company, Danfoss. The company has tripled its global net sales to almost €6bn (2017) over the last 15 years. In the beginning of this period, though, the company suffered from a lack of entrepreneurship inside the organisation, despite being regarded as an innovative and knowledge-intensive firm. The CEO's efforts to promote entrepreneurship included initiatives such as setting up special rewards schemes, providing management support and resources, enhancing the organisational structure with corporate ventures, cross-functional teams, internationalisation and external networks and removing the risk of penalties for failures. However, these means were not sufficient. Interviews with employees and managers, observations and analyses of internal documents (Christensen, 2005) revealed that three additional factors, blended with the five above, truly enabled entrepreneurial behaviours in Danfoss' employees. These three factors were the establishment of special processes for managing new initiatives, the recognition and dismantling of communication barriers between the functional and language silos and respect for local culture-specific ways of working at sites around the world.

Commit the senior management

Top management's support is widely acknowledged as a prerequisite for the successful launch and maintenance of major initiatives. Established firms' reactions to change are affected by the ability of decision-makers to modify their mental models, including their fundamental beliefs and assumptions (Bockmühl et al., 2011). Dialogue as a form of reflective conversation can be helpful in changing

managers' mind-sets (Jacobs and Heracleous, 2005).

Despite being an important enabler, the CEO does not always play a central role in finding the right business model. A transformative initiative at a Swiss private bank has demonstrated the concept of how a new, more customer-centric service provisioning could be realised (Jacobs and Heracleous, 2005). It essentially emerged through a series of dialogical interactions between the CEO, heads of departments and their direct reports. During heated debates at the workshops, two opposing views surfaced, the technology-centric and the human-centric, and it postponed the initial rollout for a few months. During this time, the initiative was redesigned to emphasise the human relational aspects while at the same time taking into consideration the technical implications for the back-office functions. Through these mental-model-shifting dialogues, the middle managers were able directly and successfully to influence the CEO's initial strategic innovation idea to fit better with the realities of the marketplace and the organisational capabilities.

Facilitating the implementation of business model change

Once a viable business model is discovered through a search process, the successful implementation of the change depends on how well the manager-innovator aspires to orchestrate the change process, commit senior management, involve middle management and involve employees (see Figure 1).

Orchestrate the change process

Effectively changing the business model typically includes the following activities. First, it involves selling the rationale for change to the organisation and beyond (Klein, 1994). Second, an internally or externally recruited change agent is needed. Third, an overview of key change enablers and disablers will provide helpful information. Fourth, designing and testing the new activities is necessary (Greiner, 1967). Having implemented these, measuring progress and institutionalizing new approaches become essential (Whelan-Berry and Somerville, 2010).

The key to successfully orchestrating change lies in realizing one's own core assumptions about the nature of the process of change and in being able to shift between alternative modes. Often, the manager leading the change is not aware of the mental model that guides his or her actions, and this leads to breakdowns in the process. Research has identified four basic models of change (Van de Ven and Sun, 2011): teleological, lifecycle, dialectical and evolutionary. The *teleology model* applies when a group of participants can agree on and move forward towards a common goal, but if an unbiased consensus is not reached, a breakdown occurs. The *lifecycle model* is suited for managing many recurrent and predictable organisational changes efficiently and effectively. Failure to design correct rules in the first place or the participants' later resistance to implement the change causes discontinuity. The *dialectical model* works best when different organisational units confront one another on an issue. Failure to navigate in conflict situations, however, blocks the process. Finally, the *evolutionary model* applies when multiple units compete for scarce resources by developing different approaches to serve a given market. Failure to ensure true variation between the alternatives or if there is no real resource scarcity defeats the purpose of using this approach.

Commit senior management

Major changes in the business model require upper echelon management support. The lack of management attention may lead to neglect of a launched initiative. The delays and resistance of the CEO may be caused by his or her long tenure with the firm (Chesbrough, 2010). That is why, it is crucial for change implementation that the importance of the new vision is clearly signalled to the higher-ups and their support secured (Whelan-Berry and Somerville, 2010).

Obtaining the commitment of top management played a key role in a business transformation project at a US natural gas company with about 5,000 employees and revenues of over US\$4bn (Amoako-Gyampah et al., 2018). The transformation was initiated by the introduction of new enterprise-level information technology and concluded three years later with success in terms of customer service improvements and company satisfaction with achieved revenue targets. Senior management in their everyday actions demonstrated commitment well beyond giving their “blessing” or declaring that “my door is always open”. The change project manager must convince executives to consistently do a set of rather specific actions: participating in steering committees, attending workgroup stand-up meetings, framing the project as a complete business transformation in speeches, continuously reiterating the importance of the project and demonstrating a true partnership and speaking with one voice with the leadership of the units most affected by the change. These action items not only belong in the business case; the change project manager needs to keep reminding the senior leaders about them.

Involve middle management

The middle managers play an important role to secure the involvement and support throughout the entire organisation. They serve as a critical bridge between the firm’s strategic core and its operating capacity. These managers are normally close to individual employees and possess a sufficiently detailed knowledge about the processes that allows them effectively to “translate” and communicate the needed changes in a language that can be understood by the employees.

One of the ideas that managers tend to believe in and attempt to exploit during organisational change initiatives is the classic Lewinian three-stage approach of “unfreeze-change-refreeze”. However, it may be a mistake to think that organisational culture, which is significantly influenced by the memories of past change attempts, can be wielded for corporate ends. As vividly demonstrated by an in-depth investigation of the experiences of supervisors at a UK mutual insurance provider (McCabe, 2010), memory is not a tool, but rather a given condition that should be seriously taken into account when introducing changes in the organisational processes. In this case, the middle managers’ past experiences of novelties such as empowerment, teamwork and timesheets were regarded as regressive and were openly resisted. Similar initiatives in the past failed when supervisors’ ability to manage subordinates effectively diminished as they tried to shift to more informal work relationships. Supervisors and their subordinates need to be involved in the process to forge a new culture to support significant changes, such as the ones brought about by business model innovation.

Involve employees

Employee motivation depends on whether they are actively involved in that part of the change process that will affect their work situation. Direct involvement can be an effective means to reduce baseless

fear or anxiety. Moreover, by involving employees in the parts of the changes that affect them directly, managers may realise that ordinary staff also possess the creativity and capability to come up with new or better ideas, especially in relation to their lines of work.

Organisational psychologists recommend facilitating employee involvement by giving a rationale for doing a task, offering some choice about how to do the task and acknowledging feelings about the task. A two-wave before-and-after survey of employees at a Canadian telecommunications company undergoing an extensive transformation (Gagné et al., 2000) showed that these facilitators significantly and positively influenced the internalisation of change one year after the initiative was announced to the workers. The use of such a participatory approach is cost-effective and intuitive both to the change managers and affected employees.

Conclusion

To prevent a potential collapse when faced with high environmental dynamics, it may well be up to the entrepreneurial middle manager to mobilise the organisation for business model innovation. However, few managers have a complete overview of the complexity and strategic issues involved in business model innovation. The framework outlined above helps to establish such an overview.

The paper presents the business model innovation process as a dynamic dual-cycle process of search and change activities. A positive outcome of a business model search depends on the manager-innovator's ability to respond adequately to relevant environmental opportunities and/or threats, ensure resources and funding, engage entrepreneurial individuals and commit the senior management. The wider success of a business model change is largely driven by a firm orchestration of the change process, the active involvement of middle management and employees and an ability to commit senior management to the implementation of the necessary changes.

The nature of these cycles is iterative, i.e. course corrections are likely to be made along the way. The entire business model lifecycle is a loop, where search and change activities never really cease.

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