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Trial lecture

28.01.2022

Magne S. Angelshaug

The background of the slide is a photograph of a workshop or laboratory setting. It shows several long, thin metal rods or tubes, some of which are stacked or leaning against each other. The surface they are resting on appears to be a coarse, grey material, possibly sand or a workbench. The lighting is soft, creating a professional and industrial feel.

The Context of Incumbent Business Model Innovation: Strategies, leadership, and collaboration

Trial lecture 28.01.2022
Magne S. Angelshaug

Structure of lecture

1. Context of incumbent business model innovation
2. Strategies
3. Leadership
4. Collaboration
5. Summing up

Part 1:

Context of Incumbent Business Model Innovation

“The starting point for any good discussion, meeting, or workshop on business model innovation should be a shared understanding of what a business model actually is”

(Osterwalder and Pigneur, 2010, p. 15)

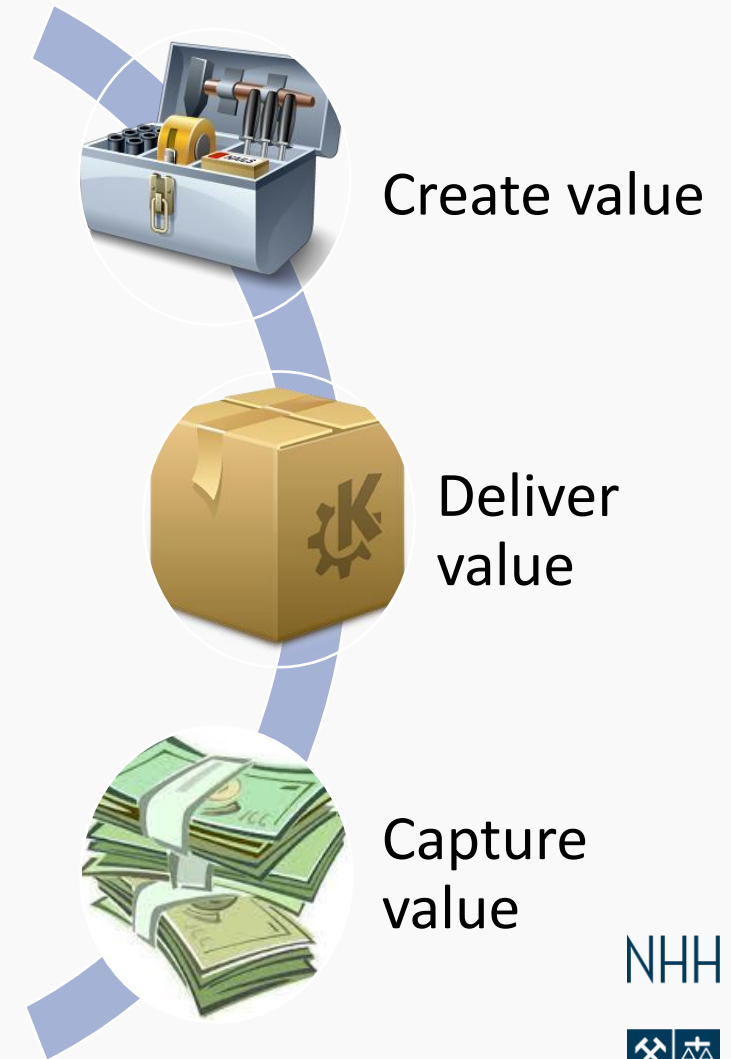


What is a Business Model?

- A business model is defined as as “the design or architecture of the value creation, delivery, and capture mechanisms” of a firm (Teece, 2010, p. 172)

And so, it helps to

- answers the questions, who is the customer, what do they want and how the firm can organize to deliver that value and make a profit (Teece, 2010)



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Interdependent and Boundary spanning characteristics

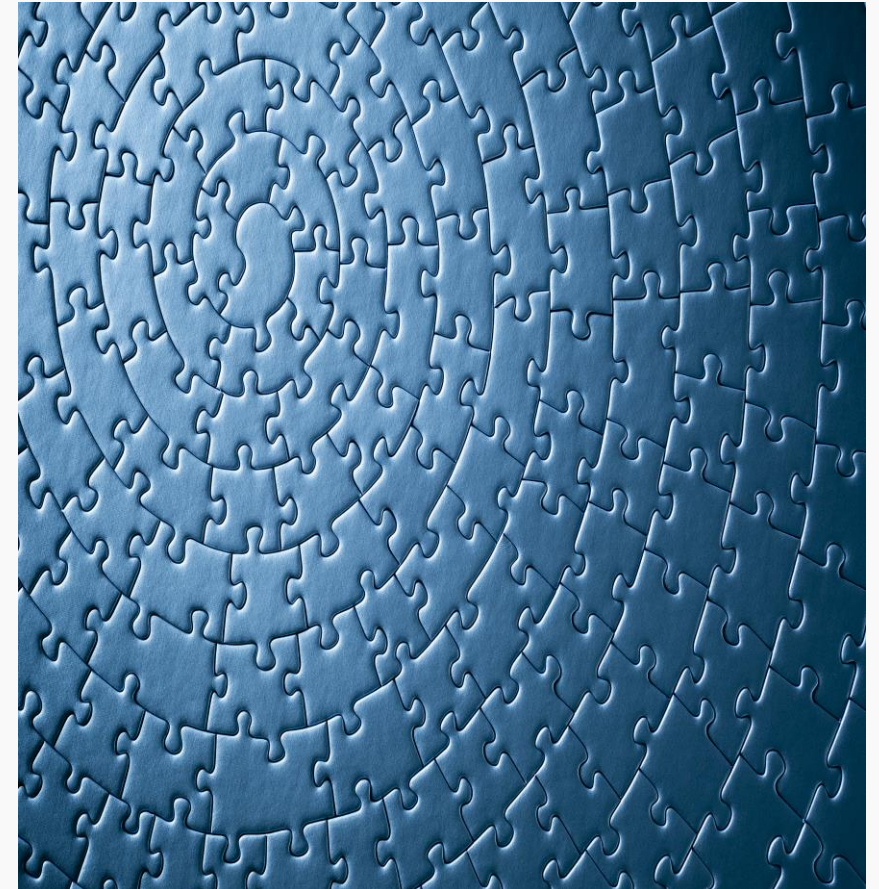
Two important aspects of the business model concept, that do not come clearly across in the definitions by Teece, is its interdependencies and boundary spanning characteristics.

- Interdependencies: The presence of tight linkages between the activities and the elements of the business model (Lanzolla and Markides, 2021)
- Boundary spanning: The presence of activities performed as part of the the focal firm's business but outside its boundaries by such actors as partners, suppliers or customers (Zott and Amit, 2010)

A more comprehensive business model definition

“The business model can be described as a system of interconnected and interdependent activities that determines the way the company “does business” with its stakeholders. In other words, a business model is a bundle of specific activities – an activity system – conducted to satisfy the perceived needs of the market. It specifies which parties within or as business partners conduct which activities, and how these activities are linked to each other.”

(Zott and Amit, 2017, p. 20)



The incumbent business model

Creation:

“Finding a value proposition”

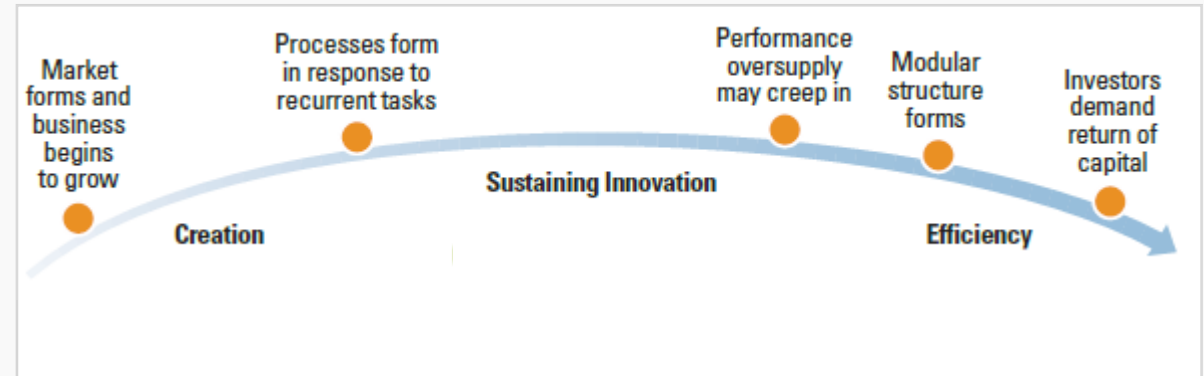
Sustaining Innovation:

“Scaling and improving”

Efficiency:

“Optimizing costs and efficiency”

(Christensen et al., 2016)



Source: Christensen et al., 2016

As the firm and its business model moves through the sustaining phase, being firmly established in the market, we can label it as an incumbent business model.

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Incumbent business model innovation

A definition of business model innovation in an incumbent context can then be stated as:

“designed, novel, and nontrivial changes to the key elements of a firm’s business model and/or the architecture linking these elements.”

(Foss and Saebi, 2017, p. 17)

- “designed”: a willed change that ultimately requires top-management action/decision
- “novel”: avoiding to include that which is already known to the firm
- “nontrivial”: avoiding to include minor changes or adjustments

Central contingencies to business model innovation

- *“Strategies”*

Links the concepts of “strategy”, “business models” and “business model innovation”, and what strategies firms may pursue in their approach to such innovation.

- *“Leadership”*

In dynamic business environments the business model can not stay static, placing specific requirements on a firm’s leadership.

- *“Collaboration”*

The boundary spanning characteristics of the business model places collaboration in innovation efforts as a central topic.

Part 2:

Strategies in Incumbent Business Model Innovation

Strategy and the Business model

While there are several perspectives on how to connect strategy and business models (Spieth et al., 2016), the following definition is a good representation of how the term strategy is understood and positioned in relations to business models in this lecture:

*“**Business Model** refers to the logic of the firm, the way it operates and how it creates value for its stakeholders; and*

***Strategy** refers to the choice of business model through which the firm will compete in the marketplace”*

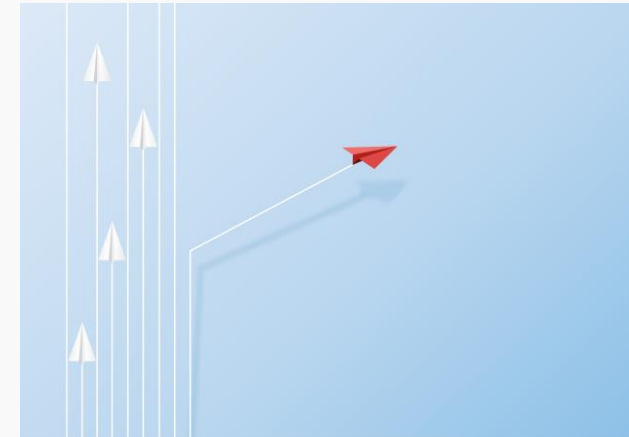
(Casadesus-Masanell and Ricart, 2010, p.196)

Strategies of Exploitation versus Exploration

Business model innovation can either follow from an exploitation strategy or an exploratory strategy

(Osiyevskyy and Dewald, 2015; Smith et al., 2010)

- Exploitation: Innovating the business model along its established trajectory (i.e. the predictable journey of Christensen et al., 2016)
- Exploration: Innovating a business model that significantly deviates from the incumbent model and its established trajectory.



Exploratory business model innovation involves the highest potential for creating a new competitive advantage for the firm (Foss and Saebi, 2017)

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Strategic choice in exploration

In exploratory business model innovation, there is a strategic choice to alter the existing business model or establish a new business model in parallel with the existing one (Christensen et al., 2016)

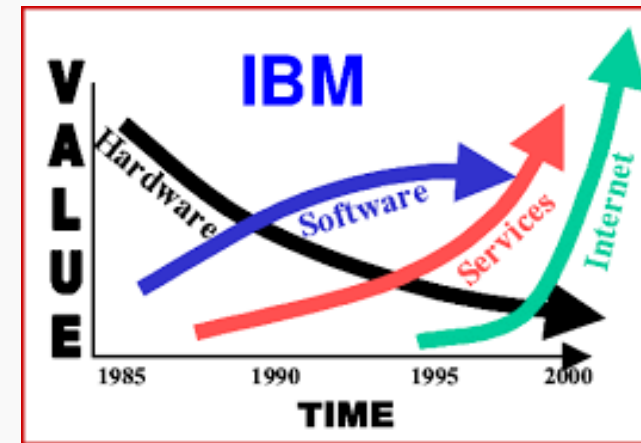
- Alter the existing model:
The primary business model is significantly changed or “pivoted” to match the new environment, facing challenges in dealing with the existing model’s high level of interdependencies and rigidities
(Berends et al. 2016; Hacklin et al., 2018)
- Establish a parallel business model:
A secondary and parallel business model is pursued, as a way to avoid rigidities and hedge risk when pursuing new opportunities, but also facing challenges connected to synergies, organizational learning, and leadership (Markides, 2013, Casadesus-Masanell and Tarzijan, 2012; McGrath, 2010)

Exploratory strategy and Value migration

The choice of innovating a primary or secondary business model should be seen in context with the degree of value migration in the business environment (Hacklin et al., 2018)

- Value migration is defined as the shift in value-creating forces that makes value move between firms and their business models (Slywotzky, 1996)

Typically, value then moves from incumbent business models to new business models that have a better match with the customers' concerns and desires.



Source: Lynch, 2001

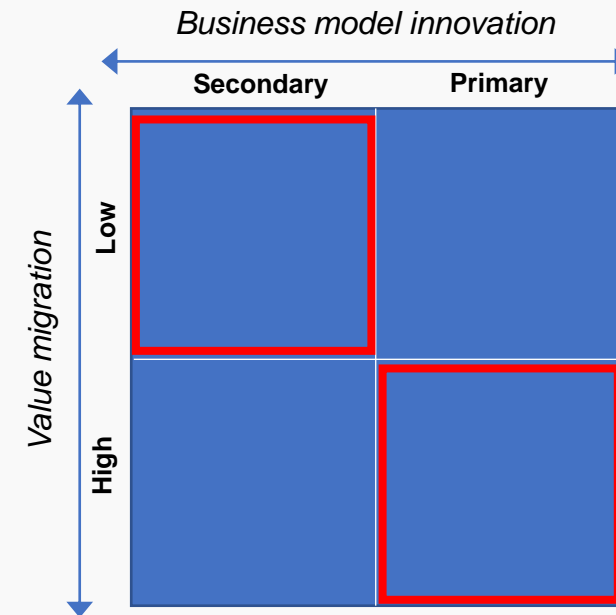
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Value migration and business model innovation

Recent research has found evidence of what strategies for business model innovation are most beneficial under certain conditions of value migration (Hacklin et al., 2018)

- When value is rapidly migrating across industries and between firms, proactively innovating the primary business model should be the preferred choice.
- Under lesser degrees of value migration, launching a secondary business model should be the preferred strategy.



End of Part 2

Strategy vs. Business model

Strategies for Exploitation vs. Exploration

Primary vs. Secondary Business model innovation

Part 3:

Leadership in Incumbent Business Model Innovation

Defining “leadership”

“The essence of leadership in organizations is influencing and facilitating individual and collective efforts to accomplish shared objectives.”

(Yukl, 2012, p. 66)

- As business environments change, and businesses scramble to respond, what constitutes effective leadership behaviors will also change.

(Michel and Yukl, 2020)



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The key role of leadership in the current context

- As business environments become more volatile and uncertain, it becomes less likely that the business model of today will be viable tomorrow, requiring a leadership that can adapt accordingly (Schoemaker et al., 2018)
- Because of the complexity of business models, and the potential wide organizational impact of business model innovation, the success of such innovation efforts relies heavily on the leadership of that organization (Foss and Stieglitz, 2015)



Taxonomies of leadership behaviour

The leadership literature have introduced several taxonomies that can help in categorizing important leadership behaviours.
(Mustafa and Lines, 2014)

- A highly relevant taxonomy in the context of business model innovation can be found in in this hierarchical taxonomy, including four broad meta-categories and 15 specific component behaviors (Yukl, 2012, p.68)

| | |
|--------------------|----------------------------------|
| Task-oriented | Clarifying |
| | Planning |
| | Monitoring operations |
| | Problem solving |
| Relations-oriented | Supporting |
| | Developing |
| | Recognizing |
| | Empowering |
| Change-oriented | Advocating change |
| | Envisioning change |
| | Encouraging innovation |
| | Facilitating collective learning |
| External | Networking |
| | External monitoring |
| | Representing |

Source: Yukl, 2012

| | |
|---------------|-----------------------|
| Task-oriented | Clarifying |
| | Planning |
| | Monitoring operations |
| | Problem solving |

Task-oriented leadership

Leadership behavior that supports accomplishing work in an efficient and reliable way (Yukl, 2012)

Such behaviors are mainly found to be relevant in the context of innovating a secondary business models in parallel with the primary.

- “Clarifying”, through
Defining and communicating an overarching vision that integrates both business models, together with clear and differentiated goals, objectives, and metrics specific to their different agendas (Foss and Stieglitz, 2015; Smith et al., 2010)
- “Problem solving”, through:
Engaging in and managing conflicts and problem solving, in ways that raise and discuss different perspectives (Foss and Stieglitz, 2015; Smith et al., 2010; Sund et al., 2016)

| | |
|--------------------|-------------|
| Relations-oriented | Supporting |
| | Developing |
| | Recognizing |
| | Empowering |

Relations-oriented leadership

Leadership behavior that increases the quality of human resources and relations (Yukl, 2012)

- “Supporting” and “Developing”, through:
Fostering leadership unity and alignment through exploring underlying assumptions and hypotheses together, building a common agenda and common interests, being transparent on personal motives, being compassionate, and embracing feedback
(Doz and Kosonen, 2010; Schoemaker et al., 2018)
- “Empowering”, through:
Sharing influence and authority among teams and leaders (Liao, 2018)

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| | |
|-----------------|----------------------------------|
| Change-oriented | Advocating change |
| | Envisioning change |
| | Encouraging innovation |
| | Facilitating collective learning |

Change-oriented leadership

Leadership behavior that can increase innovation, learning, and adaptation to the business environment (Yukl, 2012)

- “Envisioning change”, through promoting:
Exploration and experimentation, conceptual business model work, reframing the business (*Chesbrough, 2010; Doz and Kosonen, 2010; Teece et al. 2016*)
- “Facilitating collective learning”, through promoting:
Learning and understanding before viewpoints and decisions are formed, and learning about the needs and demands of both primary and secondary business models (*Markides, 2013; Schoemaker et al., 2018; Smith et al., 2010*)
- “Advocating change” and “Encouraging innovation”, through:
Promoting more resource fluidity, challenges to conventional thinking, and making decisions (*Chesbrough, 2010; Doz and Kosonen, 2010; Foss and Stieglitz, 2015; Schoemaker et al., 2018; Sund et al., 2016*)

| | |
|----------|---------------------|
| External | Networking |
| | External monitoring |
| | Representing |

External-oriented leadership

Leadership behavior that supports acquiring necessary information and resources, and promotes the organization's interests beyond its borders (Yukl, 2012)

- “External monitoring” and “Networking”, through promoting: Searching beyond the boundary of the firm, something that includes nurturing an ‘outside-in’ perspective through networks of external contacts, and listening to voices in the periphery of the business (*Chesbrough, 2010; Doz and Kosonen, 2010; Schoemaker et al., 2018*)

Leadership and business model innovation

- Taken together, the identified findings from the business model innovation literature provide a picture of the substantial requirements such innovation places on leadership in established firms.
- In business model innovation much of the requirements for an effective leadership also fall to the top management team (Foss and Stieglitz, 2015)



End of Part 3

**Current findings on what
constitutes effective leadership
behaviors in incumbent business model
innovation.**

**Link between the current findings and an
established leadership behavior taxonomy.**

Part 4:

Collaboration in Incumbent Business Model Innovation

Collaboration in business model innovation

Valuable collaborations in such innovation efforts may involve several types of actors and take many forms:

- Intra-firm collaboration, such as within teams or between teams (cf. Andreini and Bettinelli, 2017; Goossen and Paruchuri, 2022)
- Collaboration with external actors, such as firms and communities (cf. Andreini and Bettinelli, 2017; Bogers et al., 2017)



In this lecture we continue to focus on external collaborations, building on the boundary spanning characteristics of a firm's business model (Zott and Amit, 2017)

External collaborations

Research has pointed to several types of external actors that can be relevant in incumbent business model innovation, including:

- Other firms/organizations, Customers, Communities, Governmental agencies, and Industry associations (Calia et al., 2007; Snihur and Wiklund, 2019; West and Bogers, 2017)

In engaging in external collaborations, firms can also choose to:

- Collaborate closely with one or several external actors, for instance through inter-firm/organization alliances.
- Engage in more loosely-coupled collaboration with one or several actors, for instance through informal coordination channels and knowledge sharing.

(Chesbrough and Schwartz, 2007; Snihur and Wiklund, 2019; Yu et al., 2021)

A key motivation for inter-firm collaboration

- Established firms increasingly find themselves facing dynamic business environments characterized by rising complexity levels driven by factors such as fast technological advancement, new players bridging traditional industry boundaries, and generally increasing uncertainty levels (McGrath, 2010; Zott and Amit, 2010)
- Research building on social systems theory and on business model innovation find that the collaboration between organizations, through for instance strategic alliances, can constitute a powerful response to cope with this increasing complexity: **“building complexity to reduce complexity”** (Schneider et al., 2017; Spieth et al., 2021)



Defining inter-firm collaboration

“Defined as a commercially oriented connection between a firm and other organisations, inter-organisational collaboration refers to contractual, interpersonal or other linkages in pursuit of a specified goal, involving various forms of relationship such as alliances or networks [...] as ways of supplementing innovation activities within the organization”
(Yu et al., 2021, p.2)

There were first identified “two separate processes – utilizing external innovations internally, and externally commercializing internal innovations – but firms also enter into collaborations that combine these inbound and outbound flows in a coupled mode of open innovation”
(West and Bogers, 2017, p.43)



Close inter-firm collaborations

Forms of close intra-firm collaborations that have been shown to benefit incumbent business model innovation:

- **Strategic alliances and partnerships:**
“Business model innovation alliances are strategic partnerships that allow for coevally transforming and innovating the business models of the partner companies” (Spieth et al., 2021, p. 25)
See also related work by: Chesbrough and Schwartz, 2007; Mütterlein and Kunz, 2017.
- **Experimental networks:**
“A group of organizations collaborating in a time-limited, cross-industry network to explore potential business models for an anticipated profound change in socio-technical systems” (Engwall et al., 2021, p.2)
See also related work by: Rossignoli and Lionzo, 2018.

Loosely-coupled forms of external collaboration

More loosely-coupled forms of external collaboration have also been shown to play a part in incumbent business model innovation, including:

- **Innovation ecosystems:**
Can involve many types of actors and is “an ecosystem that aims to create and capture value from collaborative innovation activities and evolves as it tries to develop an initially envisioned value proposition” (Oskam et al., 2021, p.4)
See also related work by: Madsen, 2020; Schneckenberg et al., 2017
- **Knowledge sourcing:**
Conducting broad external knowledge searches, collecting knowledge from a wide variety of external sources to utilize in the innovation process
(Micheli et al., 2020; Snihur and Wiklund, 2019)

End of Part 4

Types of innovation collaboration in incumbent business model innovation.

A particular focus on the external type of collaborations.

Close and loosely-coupled external collaborations

Part 5: Summing up

**“The Context of Incumbent Business Model Innovation:
Strategies, leadership, and collaboration”**

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THANK YOU

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