# JOBM
## Journal of Business Models

# Development of New Business Models: Introducing the Cultural Elasticity Model

Anders Drejer*
Christian Byrge*
Danielle Bjerre Lyndgaard**
Hanne Merete Lassen**

*Department of Business and Management, Aalborg University*
*post@christianbyrge.com, drejer@business.aau.dk*
***Confederation of Danish Industry (DI)*
*haml@di.dk, dbl@di.dk*

## Abstract

The paper presents the Cultural Elasticity Model as a new perspective on how existing companies may better perform continuous organic development of business models. It suggests three organisational pillars for the development of an organisation with strong cultural elasticity and therefore the ability to better innovate new business models.

## Introduction

**Organic business development and its importance**

Business model innovation is not solely for start-ups, entrepreneurs and innovators (Markides, 2008). Established organisations also need to develop new business models to maintain and expand current strategic positions (Flamholtz and Randle, 2014). The seminal research of Clayton Christensen on the effects of disruption on market leaders and entire industries (Christensen, 1998) clearly shows both the needs and challenges of established organisations in this respect. When the market and circumstances changes, core competencies become core rigidities, the established organisation loses sight of the market and its corporate culture becomes a liability (Leonard-Barton, 1995; Sull, 1999). Clearly, there is a need to look at how established

organisations can become better at business model innovation.

This paper looks at organic development of new business models, which refers to the natural advancement of existing business through a dynamic process marked by the continuous invention and implementation of new business models. This excludes mergers, acquisitions, spin-offs, spin-ins as well as setting up new business units in parallel to the existing organisation. Organic development requires that the existing organisation is able to continuously unlearn patterns from fading business models and quickly learn new patterns related to emerging business models.

Organic development of new business models may affect the value proposition, value creation and deliver, value capture elements, interrelations between the elements, and the value network. Hereby, it may lead to an increase in the existing organisation's resilience and reaction towards industrial changes and may lead to competitive advantages (Mitchel and Coles 2004; Schlegelmilch et al, 2003).

In continuation of the research of Clayton Christensen, and many before him, it seems easier to develop a new business as a green field development or start-up than it is to change the business model of an established organisation (Drejer, 2019). Indeed, there is ample empirical evidence for the downfall of established players and even market leaders in the face of disruptive changes of markets and technologies (Christensen, 1998). Christensen calls this for "Innovators' Dilemma" and links this to managerial and organisational blindness towards external changes.

Sull (1999) introduced the concept of "Active Inertia" to describe the process of an organisation's downfall where the organisational blindness leads to the transformation of a proactive, vibrant and learning culture to a conservative, reactive and rigid culture, eventually leading to the demise of the organisation in changing market conditions (Drejer, 2019).

These, and many other, contributions point towards the importance of the concept of corporate culture in this respect, as illustrated by the famous, yet questionable, quote from Peter Drucker – *Culture eats Strategy for Breakfast* – showing us that the existing organisational culture often acts as the biggest obstacle for new business development.
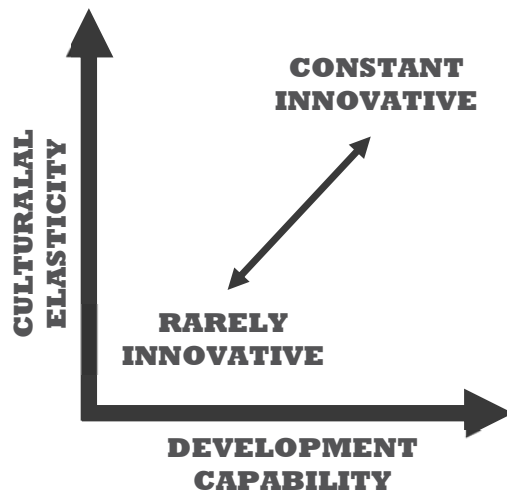
## Cultural elasticity

Development speed in existing organisations is influenced by a variety of internal factors (Pisano, 1997) of which we will focus on capability and organisational culture. Capability is the ability of an organisation to apply relevant competences in order to transform ideas into something new of value (Drejer, 2019; Leonard-Barton, 1995). Culture is the shared values and behaviours that makes up the social and psychological environment in an organisation (Schein, 1986). Capability and culture heavily influence the way employees are capable of and perform action, interaction, idea production, evaluation as well as knowledge creation and sharing in an organisation (Miller and Wedelsborg, 2015). Hereby, culture sets the barrier for how employees may resist or work towards new ideas, changes and opportunities.

The authors define cultural elasticity as the ability to quickly change the shared values and behaviours in the organisation so that they fit emerging business models. It facilitates the continuous learning of new ideas, visions, values, norms, language, assumptions, beliefs and habits related to emerging business models. This process includes the unlearning of patterns from fading business models. Failing this facilitation may results in some employees being stuck in old cultural patterns from previous (maybe failed) business models. It may also affect how employees identify with an organisation. As a result, important employees may choose to leave the organisation (Schrodt, 2002) resulting in a potential lack of qualified competent personnel.

Figure 1 represents a relation between the development capability and the cultural elasticity. Organisations that are evaluated as high on both dimensions have the ability to constantly organically innovate their business models. Organisations high on development capability and low on cultural elasticity may have difficulties implementing new business models into their current organisation and may experience resistance from current employees. Organisations high on cultural elasticity and low on development capability may experience a fluid development where attempts to innovate rarely succeed. Organisations that score low on cultural

elasticity and low on development capability will rarely experience innovative activity. So, for organisations that seeks organic development of new business models it seems crucial to consider the organisational cultural elasticity as a complement to the traditional strong focus on development capability.



**Figure 1: Relation between cultural elasticity and development capability.**

Pursuing an organisational cultural elasticity may require a new perception on what organisational culture constitutes. Apart from the traditional view of culture from Schein, culture can be understood as a corporate personality (Flamholtz and Randle, 2014). Personalities are relatively stable over time and hard to change. Therefore, it seems easy to conclude that organisational elasticity in itself is a contradicting concept. In order to understand how organisational culture and elasticity complements each other it may be a good idea to look a learning organisations (Drejer, 2004). Organisations with high cultural elasticity quickly learn and transform this new learning into new ideas, visions, values, norms, language, assumptions, beliefs and habits. Cultural elasticity therefore involves rapid learning and smooth transformation of learning into culture.

The Danish manufacturer of micro satellites, GOM-Space is an organisation that is growing rapidly fuelled by cash injection from an expectant stock market. The growth also means that the organisation must radically transform its core competencies and, indeed, corporate culture. The CEO of GOMSpace recently revealed that the organisation must change significantly in its organisational maturity as measured by Capability Maturity Modeling (CMM) going from CMM level 1 to CMM level 2 over less than two years (Drejer, 2019). For everyone with experience with CMM, it is well known that such a move corresponds to a significant change in corporate culture from an entrepreneurial mindset to a professional and process driven culture. The CEO also revealed that he does not subscribe to the view that corporate cultures are impossible to change – due the growth of GOMSpace, the average duration of employment at GOMSpace is currently at one year and one month. The CEO defined their organisational culture like this: "we have no corporate culture".

From the perspective of the Cultural Elasticity Model GOMSpace would be a case of a highly elastic culture. This is helped by the fact that the growth of the company is followed by the hiring of many new employees – many of which are hired from Danish project organisations that are at CMM levels 4 and 5. And also that employees from the entrepreneurial stage are leaving the company. GOM, as it is, stands for Grumpy Old Men, the nick name for the three founders of the company all of whom have left the organisation today. Their approach seems to be to nurture several alternative cultures within the same organisation in order to keep the cultural elasticity high. This illustrative case gives an (extreme) example of high cultural elasticity.

## Approach

This paper is the result of a collaboration between industry advisors from the Confederation of Danish Industry (DI), a private organisation, funded, owned and managed entirely by approximately 10,000 companies within the manufacturing, trade and service industries, and researchers from Aalborg University. Through their work at DI, the advisors have developed a model for cultural elasticity in an action learning process that has taken place over a period of 3 years.

After the action learning results began to converge at results with a certain degree of predictability and similarity across different organisations, it was decided to involve the university researchers in a joint reflection

and concept formulation process with this paper as its first, preliminary, result.

The research process involved reflecting on the action learning processes and their results by means of state-of-the-art literature as well as conceptualising the notion of cultural elasticity.

## Key Insights

The Cultural Elasticity Model provides three key focus points for leaders to consider when making their organisation better at organically developing new business models. The authors denote these focal areas as pillars that need to be build and sustained in order to develop cultural elasticity in an organisation.

### Mutual Trust

The first pillar of cultural elasticity is mutual trust. Trust is important between leaders and employees, leader colleagues, among the employees and last, but absolutely not least, trust between the organisations and its suppliers and customers. By creating an environment based on mutual trust, leaders enable the organisation to be more courageous and more open in terms of letting knowledge and ideas flow fluently.

The authors look at mutual trust as trust between employees as well as trust between employees and leaders of the organisation. Mutual trust is important in order to support and make legitimate the formulation and exchange of new ideas in the organisation. An elastic culture is a culture, where its members are not afraid of repercussions if they venture ideas that are against the cultural gradient or the logic of their leaders, their company or the industry. Additionally, successful development of innovative ideas seems to be more of a teamwork than a one-man effort (Miller and Wedel-Wedelsborg, 2015). Hence, collaboration is important for trying out new ideas and for developing new ideas. And collaboration is supported by mutual trust.

Trust emerges over time and cannot be forced or imposed. Trust is created by spending time and talking together, solving projects and tasks, getting to know each other and have positive experiences when doing that. Trust emerges in relations, where we respect, appreciate and understand each other. Also

– and especially – when we do not agree. To expand the cultural elasticity of the organisation and making the organisation more innovative as a whole, leaders need to support a culture, where disagreements and failing is regarded as an important part of innovative processes.

Organisations rarely succeed being innovative completely on their own. Therefore, mutual trust also includes relations to suppliers and customers, and even competitors in some situations. Only by engaging in relations with these stakeholders, is it possible to obtain the necessary knowledge and inspiration for innovation to be relevant and useful.

### Creativity

The second pillar of cultural elasticity is creativity. Creativity brings about novel valuable ideas and makes it easy to quickly adopt to new realities (Byrge and Hansen, 2014). Employees increase the level of cultural elasticity if they are flexible in changing perception on problems and situations as well as are able to produce lots of ideas. Hereby employees will be able to see their organisation and tasks from new perspectives and produce new ideas on how to make them better. Also, employees should be open minded, curios, playful, task-focused and intrinsically motivated. This will help them elaborate and follow new ideas, visions and business models in times of rapid changes and structural uncertainty.

Leaders increase the level of cultural elasticity if they continuously challenge fundamental notions, think up original new ideas and have a strong creative self-efficacy. This will help them be free from pattern thinking and be confident that they can be creative in their efforts to develop and implement new business model elements on a daily basis. They should visualise future scenarios, identify novel and valuable ideas as well as use imagination without the normal limits of causal thinking. Hereby, employees will be able to make quick evaluations and decisions on ideas for the organisation to focus on. Unfocused creative organisations risks wasting much time and spreading their resources over too many different directions of development. Unfocused creativity may therefore lead to little effectiveness in the development of new business models. The creativity needs to be focused and the leaders has the

key role in continuously making ambitious visionary decisions on which ideas to focus on.

### Engagement

The third pillar of cultural elasticity is that of engagement. Engagement is about being willing to spend your time and energy on something in which you believe. Often engagement is expressed in a willingness to 'go the extra mile' or as being committed to the idea, the organisation, the project or the team. This commitment creates better chances of success with business model innovation. A culture with a high degree of engagement will be better at getting things done than a culture with a low degree of engagement. Thus, it is important that – once an idea or a direction is chosen – the members of the organisation pursue the idea with maximum engagement.

Leaders must know their employees' competencies – both personal and professional – and make sure that everyone gets the opportunity to contribute with their strengths in the best way possible. They should set the expectations appropriately high, but not so high that they cannot be met. Leaders should also follow up and provide feedback in order to create continuous development. Focus among leaders should also be on developing themselves, the employees, the processes and the organisation in order to ensure the relevant capabilities and cultural elasticity, so that everyone are able to and have the necessary space to take any action needed.

Leaders who wish to develop the engagement among the employees, should focus on creating meaningful understandings in the organisation. They should regard themselves as sense-makers in order to set direction and clear expectations in a meaningful way, thus providing the organisation with a clear 'why' – a purpose to set the direction for all the innovative projects and processes emerging in the organisation. As a result, leaders should also have great persuasive powers. Leaders supporting creative ideas without persuasive powers are often considered "crazy", "wild" or "irrational" when they attempt to make the organisation comply and follow these new ideas. Leaders should, therefore, be able to make convincing arguments for and orchestrated presentations of their new ideas - in particular when it comes to creating engagement for novel ideas.
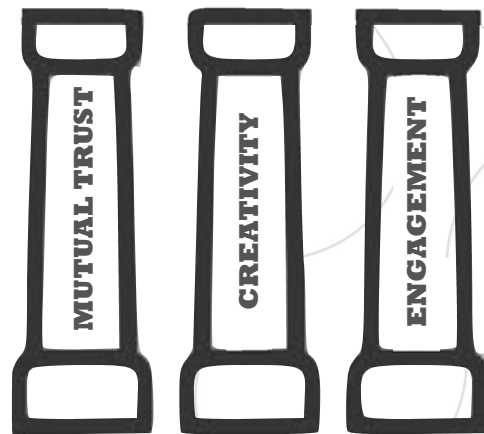


**Figure 2: Cultural Elasticity Model**

## Discussion and Conclusions

This paper is directed at leaders and scholars interesting in how established organisations can pursue organic business development. It challenges the perspective that entrepreneurship is the sole source of innovation and new business development and, hence, a contribution to the old Schumperterian debate about the source of innovation. Also, pragmatically, there are quite a lot of established organisations out there with the desire to keep existing.

One of the greatest barriers to innovation in established organisations is that of the corporate culture. This is perhaps not surprising given the seminal definition by H. Edgar Schein (1986), who views organisational culture as the sum of practices that in the past have been proved to work. As a polar opposite we have the development of new business models including, often, entirely new practices, technologies and/or customer segments. So, ironically it seems that new business development is impossible for established organisations, a conclusion that is supported by a rich literature of empirical evidence (e.g. Christensen, 1998; Drejer, 2019).

However, some organisations do succeed with organic business development – even of the radically innovative kind. This suggest that some organisational cultures are more elastic than others. This has served as the starting-point for the research underlying this paper and the model for cultural elasticity presented has served as a focal point for action-learning research on the subject.

The results of the action-learning processes undertaken by two of the authors suggest that the Cultural Elasticity Model can be a useful mean for creating a dialogue within management teams/organisations on cultural elasticity. Furthermore, the three pillars of the model provide a useful starting point for identifying possible courses of action towards improving the cultural elasticity of an organisation.

In the future, the authors will strive towards a number of research objectives related to the Cultural Elasticity Model. Firstly, the model in itself need to be further scientifically tested. This needs to be done both in relation to empirical use, e.g. where is the model useful/ not useful, what are the contingency factors for use of the model, as well as in relation to literature. Secondly, it is necessary to develop metrics for the model in order to provide a location of organisations in the model. Thirdly, the use of the tested model needs to be placed inside the framework of models and tools in the realm of business (model) generation. The Cultural Elasticity Model is a new model that brings new perspectives on how to advance the organic development of new business models in existing organisations. Given the complexity of management of innovation and development it is clear that more variables may be involved in the processes that lead to the development and implementation of new business models. The authors hope that others will join in on studying and testing this new perspective on how existing organisations may better organically develop and implement new business models in their companies and markets.

# References

Byrge, C. & Hansen, S. (2014). *Enhancing creativity for individuals, groups and organizations: Creativity as the Unlimited Application of Knowledge*, Frydenlund Academic.

Chesbrough, H. & Rosenbloom, R.S., (2002). The Role of Business Model in capturing value from innovation, *Industrial and Corporate Change*, Vol. 11, No. 3, pp. 529-555.

Christensen, C. M., Raynir, M.E. and McDonald, R. (2015). *What is Disruptive Innovation*, Harvard Business Journal.

Christensen, C. (1998). *The Innovator's dilemma,* Harvard Business School Press.

D'Aveni R.A., Dagnino, G.B. and Smith, K.G. (2010). The Age of Temporary Advantage, *Strategic Management Journal*, Vol. 31, No. 13, pp. 1371-1385.

Drejer, A. (2019). *Strategi på Kanten*, Djøfs Forlag.

Flamholtz, E. & Randle, Y. (2014). Implications of organizational Life Cycles for Corporate Culture and Climate - In Schneider, B. & Barbera, K.M. (Eds.), *The Oxford Handbook of Organizational Climate and Culture*, Oxford University Press, Oxford, pp. 247-256.

Geuys, A. (1997). *The Living Company*, The Free Press.

Leonard-Barton, D. (1995). *Wellsprings of Knowledge*, Harvard Business School Press.

Markides, C. (2008). *Game-Changing Strategies: How to Create New Market Space in Established Industries by Breaking the rules*, Jossey-Bass.

Mitchell, D.W., & Coles, C.B. (2004). Business model innovation breakthrough moves, *Journal of Business Strategy*, Vol. 25, No. 1, pp. 16–26.

Miller, P. & Wedel-Wedelsborg, T. (2015) *Innovation as Usual*, Harvard Business School Press.

Pisano, G. (1997). *The Development Factory*, Harvard Business School Press.

Schein, H.E. (1986). *Organisational Culture and Leadership*, Harvard Business School Press.

Schrodt, P. (2002). The relationship between organizational identification and organizational culture: Employee perceptions of culture and identification in a retail sales organization, *Communication Studies*, Vol. 53, No. 2, pp. 189–202.

Schlegelmilch, B.B., Diamantapoulos, A. and Kreuz, P. (2003). Strategic innovation: the construct, its drivers and its strategic outcomes, Journal of Strategic Marketing, Vol. 11, No. 2, pp. 117–132.

Sull, D. (1999). Why Good Companies go Bad, *Harvard Business Review*, July-August Issue, 1999.

Zott C.C. & Amit, R. (2010). Business Model Design: An Activity System Perspective, *Long Range Planning*, Vol. 43, No. pp. 216-226.Zott, C., & Amit, R. 2008. The fit between product market strategy and business model: Implications for firm performance. Strategic Management Journal, 29(1): 1-26.