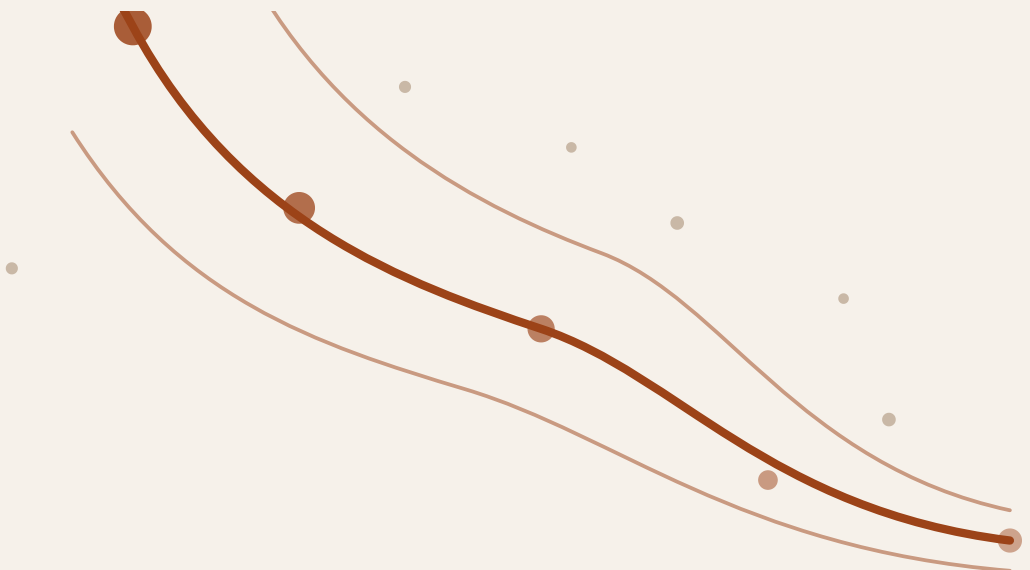


Innovation Management

From scattered initiatives
to a sustained organizational capability

Dr. Omar A. Alsamani



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13 Business model and value innovation

Once a solution has proven its worth, a question with farther-reaching consequences comes to the fore: How is its value to be delivered, and how is its continuity to be secured? The material of this chapter is organized around that question. We set out the components of the business model, trace its form in the public sector, where public value takes precedence over profit, then review patterns of business model innovation and reflect on what makes changing the model so difficult for established organizations.

Introduction

Opening case: A municipality (composite case)

A municipality piloted a service for reporting streetlight faults through photos that residents sent from their phones; the photos were analyzed automatically and routed to maintenance crews. Over the six months of the pilot, funded from the innovation budget, the time needed to repair faults fell by half, and residents expressed their satisfaction. Then the pilot budget ran out. The service found no department to adopt it: the maintenance department saw it as a technology project, the IT department saw it as a maintenance service, and neither had a budget line for operating costs or for the

developer's contract. The service was discontinued two months later, even though every one of its indicators had shown success.

The pilot succeeded in proving that the solution worked, yet no one asked during it how the solution would continue: who would own it, who would bear its cost, and how its value would flow back to whoever paid. These are business model questions, and they extend beyond the commercial concerns of companies to every innovation; whatever its sector, an innovation needs a model to carry it.

Learning Objectives

After studying this chapter, the reader should be able to:

- 1 Explain why a solution's success is not enough for an innovation to endure.
- 2 Describe the components of the business model and the relationships among them.
- 3 Apply the concept of public value and Moore's triangle to public sector initiatives.
- ε Use business model innovation patterns to design alternatives.
- 0 Identify the obstacles that prevent established organizations from changing their models.

13.1 Why is a good solution not enough?

Teece defines the **business model** as the logic by which an organization delivers value to those it serves and captures enough to sustain itself (Teece, 2010). In his view, a new technology or idea does not carry its value within

itself; its value is determined by the model that brings it to people. This is why the same idea can succeed in one organization and fail in another.

One of the clearest examples is the case Chesbrough and Rosenbloom studied at Xerox's Palo Alto Research Center. The center developed numerous technologies that found no place in the company's business model, which was built on selling copiers and related services. They left in independent start-ups, and some went on to great success with entirely different business models (Chesbrough & Rosenbloom, 2002). The obstacle lay in the existing model, which could not see the value of these technologies.

For innovation management, this idea has two implications. First, the model question should be raised early, alongside the testable concept discussed in the previous chapter, whereas in the opening case it was put off until after the pilot had succeeded. Second, the innovation may lie in the model itself: an existing service delivered differently, funded differently, or with a new party sharing in its delivery. This is what Chapter 1 called innovation in the “mental model,” an area often overlooked in favor of products and technology.

13.2 Components of the business model

There are many frameworks for describing a business model, the most widely used being Osterwalder and Pigneur's nine-component canvas (Osterwalder & Pigneur, 2010). Johnson, Christensen, and Kagermann offer a simpler framework of four interlocking elements, which suffices for the purposes of this chapter (Johnson et al., 2008); Figure 13.1 illustrates it.

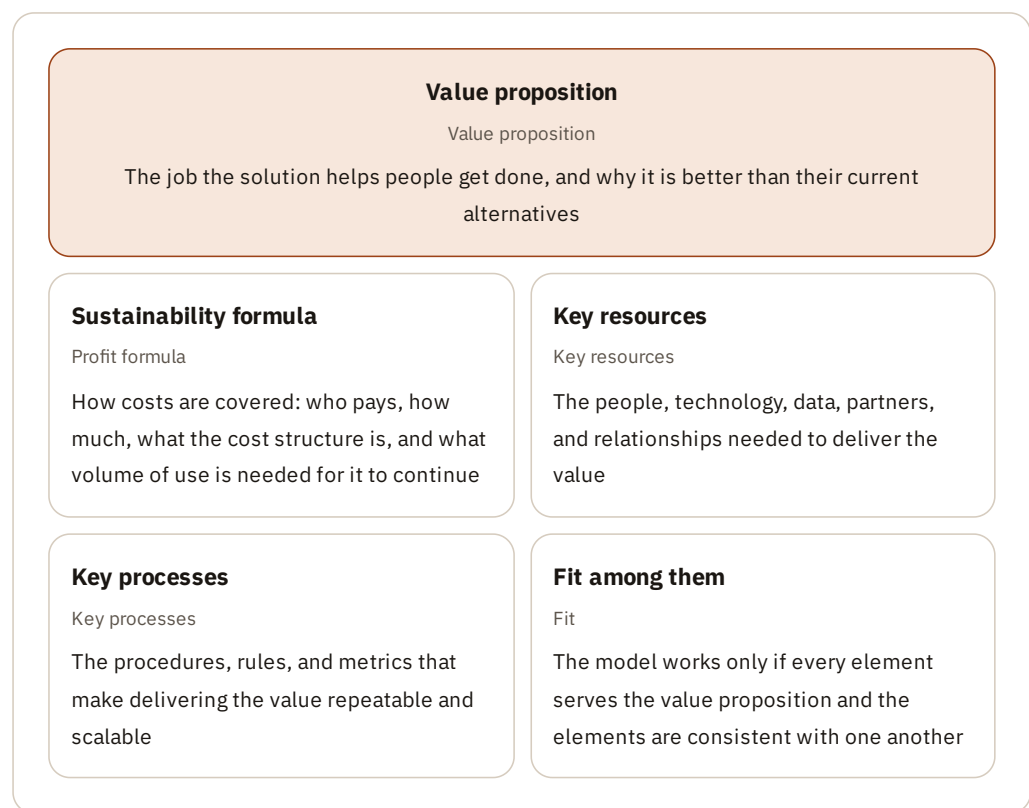


Figure 13.1 Elements of the business model, adapted from Johnson et al. (2008).

The model always starts from the **value proposition**, a direct extension of what Chapter 11 presented on jobs to be done: the value proposition describes the progress the solution brings to those who use it, compared with what they do today. Johnson and colleagues stress that most organizations that succeed in innovating their models begin with a precise understanding of this job before thinking about revenue sources.

Applied to the opening case: the value proposition was clear and strong, and the resources were available during the pilot. The sustainability formula, however, was never designed at all: no one determined who would bear the operating cost, or how the savings the service achieved in maintenance crews' time would be calculated to justify that cost. The same was true of the key processes: no one specified who would own the service after the pilot, or how it would be integrated into routine maintenance procedures.

13.3

Public value and the public sector model

In the public sector, profit is not the goal, and the beneficiary is not always the one who pays. The business model therefore needs a different form. Moore offers a framework for this known as the **strategic triangle**: a public initiative succeeds when three things are aligned. It must create *public value* that society appreciates, enjoy *legitimacy and support* from the bodies that hold the mandate and the funding, and have the *operational capacity* to deliver (Moore, 1995). Figure 13.2 illustrates this triangle.

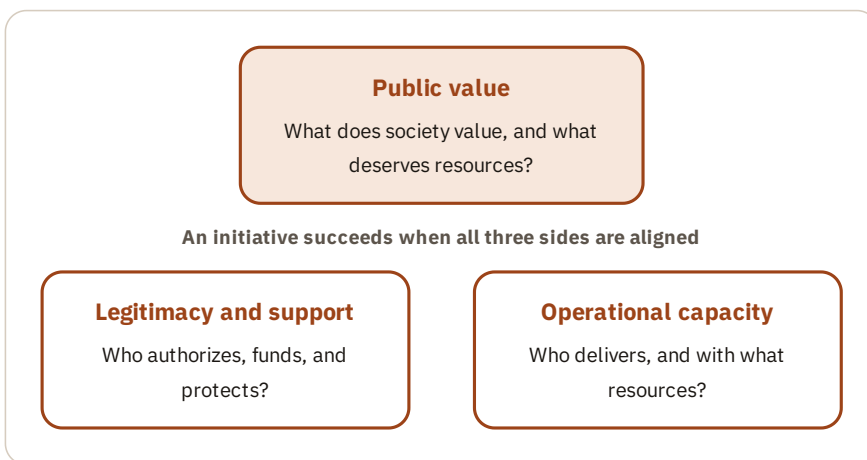


Figure 13.2 The strategic triangle of public value, adapted from Moore (1995).

Reading the opening case through this triangle reveals where things went wrong. Public value was achieved, and operational capacity was demonstrated in the pilot, but the third side, the body that would adopt the service, authorize its continuation, and fund it, was never built. Had that side been built during the pilot, by involving the maintenance department from the start as the future owner and counting the savings in its time as part of the sustainability formula, the outcome would have been different. Chapter 15 returns to the transfer of ownership as a condition for scaling.

In the public sector and in universities, the sustainability formula takes many forms: a line in the budget of an owning body, savings in existing costs that are redirected, fees charged to some beneficiaries, a partnership with the private sector in which the partner bears part of the cost in return for value it receives, or some combination of these. A university's digital fabrication lab (fab lab), for instance, might be sustained by university funding to serve students, along with revenue from services it provides to companies in the region and sponsorship from organizations that see its students as a source of talent they need. The absence of such thinking is what leaves many of these entities dependent on a start-up budget that runs out, after which they remain in place but inactive.

The individual innovator has a model too. In a qualitative study, most of the prominent Saudi innovators interviewed held that turning their innovation into a source of income early on was a condition for continuing with it (Alsamani, 2023). An organization that supports innovators goes beyond funding their ideas to helping them think through the model that will make their innovation sustainable.

13.4 Patterns of business model innovation

Gassmann, Frankenberger, and Csik studied hundreds of innovative business models and found that most of them, around 90 percent, were recombinations of pre-existing patterns, transferred from one industry to another or combined in a new way. They identified fifty-five recurring patterns (Gassmann et al., 2014). This finding means that business model innovation calls less for invention from scratch than for broad knowledge of patterns and the ability to transfer them, which links it to the analogical thinking discussed in the previous chapter. Table 13.1 presents a number of these patterns and the forms they might take in the public sector.

Table 13.1 Selected business model innovation patterns and their possible applications, adapted from Gassmann et al. (2014)

Pattern	Core idea	A possible form in the public sector or a university
Self-service	The beneficiary does part of the work in return for greater speed or flexibility	Online services that beneficiaries complete without an in-person visit
Pay-per-use	The beneficiary pays in proportion to use	Making university labs available to companies by the hour
Freemium	A basic service for everyone, with additional features for a fee	Free initial consultations for entrepreneurs, and advanced incubation programs through paid partnerships
Platform	Connecting parties who need one another instead of delivering the service directly	A platform connecting organizations' problems with students and researchers able to solve them
Outcome-based contracting	Payment is for outcomes achieved rather than for activity	Maintenance contracts paid according to actual repair times
Co-delivery partnership	Another party contributes its own resources to delivering the service	Nonprofit associations or companies delivering part of a public service

A pattern should be chosen for how well it serves the value proposition and fits the organization's resources and capabilities, regardless of how fashionable it is. Many attempts to transfer successful models from one context to another fail because the pattern was moved without the resources and processes that made it work in its original setting. We return to this idea in Chapter 20, in discussing borrowed models in universities.

13.5

Why is the model hard to change?

If business model patterns are well known, why do organizations not change their models more easily? Chesbrough identifies two kinds of obstacle (Chesbrough, 2010). The first is a **conflict with existing assets**: a new model may threaten existing revenue streams, positions, or investments, and those who hold them resist it. The second is a **cognitive barrier**: a successful model becomes the “dominant logic” through which the organization views every new opportunity, so an idea is assessed by the yardsticks of the existing model and appears less attractive than it really is. This is what happened with Xerox's technologies.

Chesbrough proposes treating a new model with the same logic used for a new product: through experimentation. The model's assumptions, such as an organization's willingness to pay or a partner's ability to deliver, are tested with small experiments before full commitment. Chapter 14 takes up this experimentation. This connects to organizational ambidexterity and autonomous teams: a new model that conflicts with the existing one may need a separate space in which to grow before it returns to the organization.

Caution

A pilot funded from the innovation budget tests the solution, but it can mask the model question: as long as the cost is covered, it remains unclear who will bear it later. Every pilot should therefore include an explicit question: Who will pay afterward, and why will they pay?

Chapter tool: The value model canvas

Fill in this canvas for every initiative before its pilot begins. If you cannot answer a question, turn it into an assumption and test it in the pilot itself. The canvas combines the elements of the business model with the public value triangle, so that it serves both sectors.

Chapter tool The value model canvas (example from the opening case)

Item	Question	Example
For whom?	Who are the beneficiaries, who are the users, and are they the same group?	Residents are beneficiaries and reporters; maintenance crews are users
Value proposition	What job does the solution get done? Why is it better than the alternatives?	Faster repair of faults and more precise dispatching of maintenance crews
Public value	What does society gain?	Safer streets and greater confidence in the municipality's responsiveness
Resources and partners	What resources are needed? Who are the partners?	The analytics platform, the developer, and maintenance crews
Processes	How does the solution fit into daily work? Who runs it?	Automatic routing into the existing maintenance system
Sustainability formula	What is the ongoing cost? Who bears it? What savings or returns offset it?	An annual operating cost offset by savings in field inspection rounds
Owner	Who owns the solution after the pilot? Did they take part in it?	The maintenance department, which should be involved from the start
Legitimacy and support	Who authorizes, funds, and protects?	Municipal leadership, and a line in the maintenance budget
Critical assumptions	What must be true for the model to endure?	That the savings cover a substantial share of the operating cost

Chapter Summary

- A business model is a logic for delivering value and securing its continuity, and an idea's value depends on the model that carries it; the same idea may therefore succeed with one model and falter with another.
- The model question should be raised early, in parallel with the testable concept and before the pilot.
- The model has four interlocking elements: the value proposition, the sustainability formula, key resources, and key processes. It always starts from the value proposition.
- In the public sector, an initiative succeeds when public value, legitimacy and support, and operational capacity are aligned.
- Most business model innovations are recombinations of existing patterns, and a pattern is chosen for its fit with the value proposition and resources.
- The model is hard to change because of its conflict with existing assets and the hold of the dominant logic; experimentation and separate spaces help overcome this.

Key Terms

Business model Business model	The logic by which an organization delivers value to those it serves and captures enough to sustain itself.
Value proposition Value proposition	The job the solution helps people get done, and why it is better than their alternatives.

Public value Public value	The outcomes of public work that society and its members value.
Strategic triangle Strategic triangle	A framework linking the success of a public initiative to the alignment of public value, legitimacy and support, and operational capacity.
Dominant logic Dominant logic	The way of thinking that the existing model imposes on the assessment of new opportunities.

Review and Discussion Questions

- 1 Why might the same idea succeed in one organization and fail in another?
Understanding
- 2 Analyze the opening case using the strategic triangle, and identify what should have been done during the pilot. Analysis
- 1 Choose an innovation entity in your organization, such as a lab or center, and design a sustainability formula for it that combines two or more sources. Application
- 2 Choose two patterns from Table 13.1 and apply them to a service your organization provides. Application
- 3 “The business model is a matter for profit-making companies, and the public sector has no need of one.” Evaluate this statement. Evaluation

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How does an organization move from scattered initiatives that celebrate innovation to a sustained capability to produce it?

This book traces the path of innovation from the first signal to a solution adopted in practice that creates value, and analyzes the organizational foundations that make this path a settled practice: strategy, systems, culture, governance, teams and measurement, with people at the center.

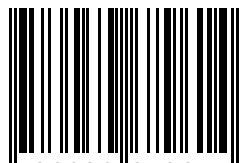
It rests on three pillars: a clear, high-priority problem; motivated people whose needs are met; and a system that connects them and turns effort into repeatable results. It combines international research evidence with the Saudi context, and pairs each chapter with a tool that can be used in a real organization.

Its twenty chapters are organized in five parts: foundations; institutional foundations and people; the initiative journey; value and the ecosystem; and an application to the university innovation ecosystem.

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