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How do you enable business model innovation to thrive in your organisation?

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Abstract

In this interview-based article, Professor Christian Nielsen summons two of the latest decades' biggest management thinkers, the two inventors of the Business Model Canvas, Alex Osterwalder and Yves Pigneur, for a conversation about the current challenges for companies in doing business model innovation. According to Alex and Yves, companies face two major challenges. First, companies have inadequate governance structures for allowing innovators to do decent work, and second, the old guard knows jack shit about innovation. Unfortunately, it is precisely the old guard sitting with the management reigns at this time. Our conversation identifies three enablers to help overcome these challenges. First, the enabler is about ensuring leadership commitment and allocating management time to innovation. The second enabler is the ability to kill ideas. This is important, because every company needs to focus their innovation efforts, besides ensuring that budgets and resources are channelled in the most fruitful directions. The third enabler is building an innovation culture that coexists with an exploitation culture and where innovators can thrive. In successful companies, innovators are not pirates; they are highly esteemed contributors to corporate success. Finally, we get a sneak peek at their current work focus.

Keywords

Enabling business model innovation, innovation governance, leadership commitment, innovation culture

1. From tools and techniques to innovation triumph

On the theme of the future prospects of business models and business model innovation, this interview, conducted by Christian Nielsen, and two of the biggest management thinkers in the last two decades, the inventors of the Business Model Canvas, Alex Osterwalder and Yves Pigneur, highlights current challenges for companies in doing business model innovation.

Christian:

Alex and Yves; thank you for your time this morning. What are you seeing as current major developments and challenges concerning the development of the field of business models and business model innovation? From your perspective, how do you think the field is developing, naturally considering what you are working on with your master classes and Strategyzer, as well as the work with the latest *Invincible Companies* book you published? I am assuming that you gained a lot of valuable insights in the last couple of years and where do you then see these things going, also from the basis of the Business Model Canvas (Osterwalder & Pigneur, 2010)?

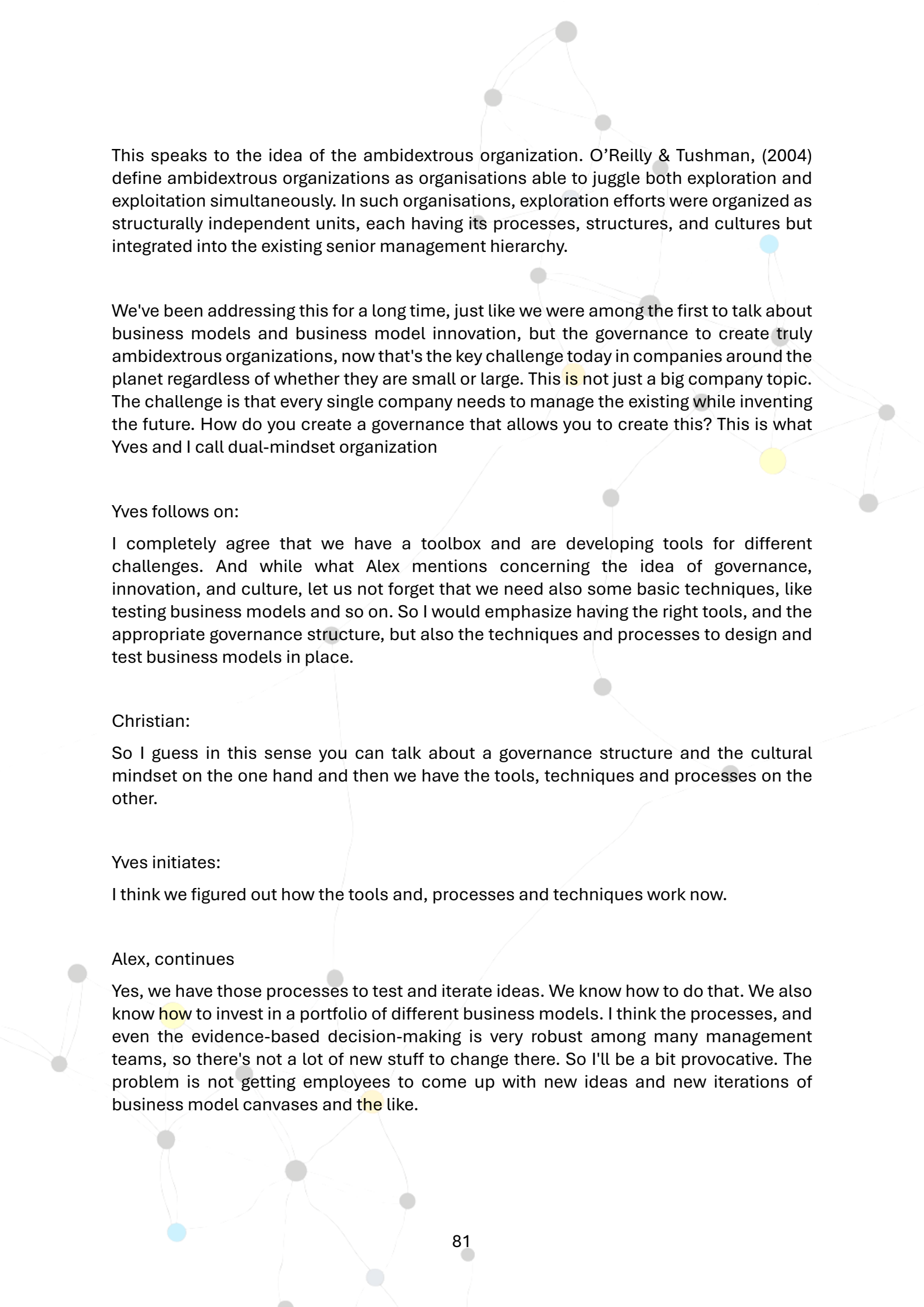
Alex exclaims:

I can start. Christian, you have to remember that the business model Canvas is merely one tool and the problem with innovation is that it requires not just one tool. This led us to develop several other tools, simply because there are many different types of challenges when you do innovation. For example, one is the challenge of zooming into greater detail and looking at products and their effects on users. To assist with this, we developed the Value Proposition Canvas (Osterwalder et al., 2014). On the other hand, the Business Model Canvas is a tool for zooming out and looking at your resource allocation into a portfolio of different business models. Therefore, we also created the business portfolio map (Osterwalder et al., 2020). All in all, one tool is not the answer. It's a question of leveraging several tools and several processes that are required, but even that is just the technical tools, right, exclaims Alex. It's like the scalpels in the operating theatre. If you do not have the right processes, procedures, governance structure, etc., you will fail. It is not enough to just have the right tools in the room.

2. Governance structure is a key to success

Alex continues:

The big challenge today in innovation, in particular in business model innovation, is that companies don't have sufficient governance structures that allow innovators to do good work. The biggest challenge is therefore not concerned with the tools, it's around the governance of innovation and how companies implement that governance. How do they continue to manage their companies while innovating and inventing the future, Alex asks?



This speaks to the idea of the ambidextrous organization. O'Reilly & Tushman, (2004) define ambidextrous organizations as organisations able to juggle both exploration and exploitation simultaneously. In such organisations, exploration efforts were organized as structurally independent units, each having its processes, structures, and cultures but integrated into the existing senior management hierarchy.

We've been addressing this for a long time, just like we were among the first to talk about business models and business model innovation, but the governance to create truly ambidextrous organizations, now that's the key challenge today in companies around the planet regardless of whether they are small or large. This is not just a big company topic. The challenge is that every single company needs to manage the existing while inventing the future. How do you create a governance that allows you to create this? This is what Yves and I call dual-mindset organization

Yves follows on:

I completely agree that we have a toolbox and are developing tools for different challenges. And while what Alex mentions concerning the idea of governance, innovation, and culture, let us not forget that we need also some basic techniques, like testing business models and so on. So I would emphasize having the right tools, and the appropriate governance structure, but also the techniques and processes to design and test business models in place.

Christian:

So I guess in this sense you can talk about a governance structure and the cultural mindset on the one hand and then we have the tools, techniques and processes on the other.

Yves initiates:

I think we figured out how the tools and, processes and techniques work now.

Alex, continues

Yes, we have those processes to test and iterate ideas. We know how to do that. We also know how to invest in a portfolio of different business models. I think the processes, and even the evidence-based decision-making is very robust among many management teams, so there's not a lot of new stuff to change there. So I'll be a bit provocative. The problem is not getting employees to come up with new ideas and new iterations of business model canvases and the like.

The current problem is that organizations are missing out on crucial transformations because they lack the right governance structures so that the processes and business models innovated are implemented the right way. I think one of the reasons is that business modelling is a young profession. Companies do not implement properly because a lot of leaders do not know how innovation actually works.

This is not because managers are not smart, but simply because they do not look in the right places when it comes to innovation. It's a mystery to me why companies still do the wrong things because they are not doing innovation very well.

Maybe it is because there is no academic research that shows how to choose the tools and techniques properly. But I do believe that this is an implementation challenge, and not a knowledge challenge in the sense that managers and employees keep innovation myths, which are completely wrong, alive.

3. The old guard knows too little about innovation

I'm simply not sure that companies know how to do innovation, Alex proclaims.

There's still a knowledge issue for companies because they think that with traditional managerial capabilities, they can do innovation and this may not be true I think that's where you know 100% agree with Yves that today the students who are trained in these tools and quite a few universities now teach this well. Therefore, another interesting dilemma is that the students coming out of universities and high school are better equipped than the leaders that they're going to report to in innovation and that's a challenge, right So, a lot of old school leaders, you know chief technology officers even in IT and so they are not as well educated on innovation as the students coming out of the university.

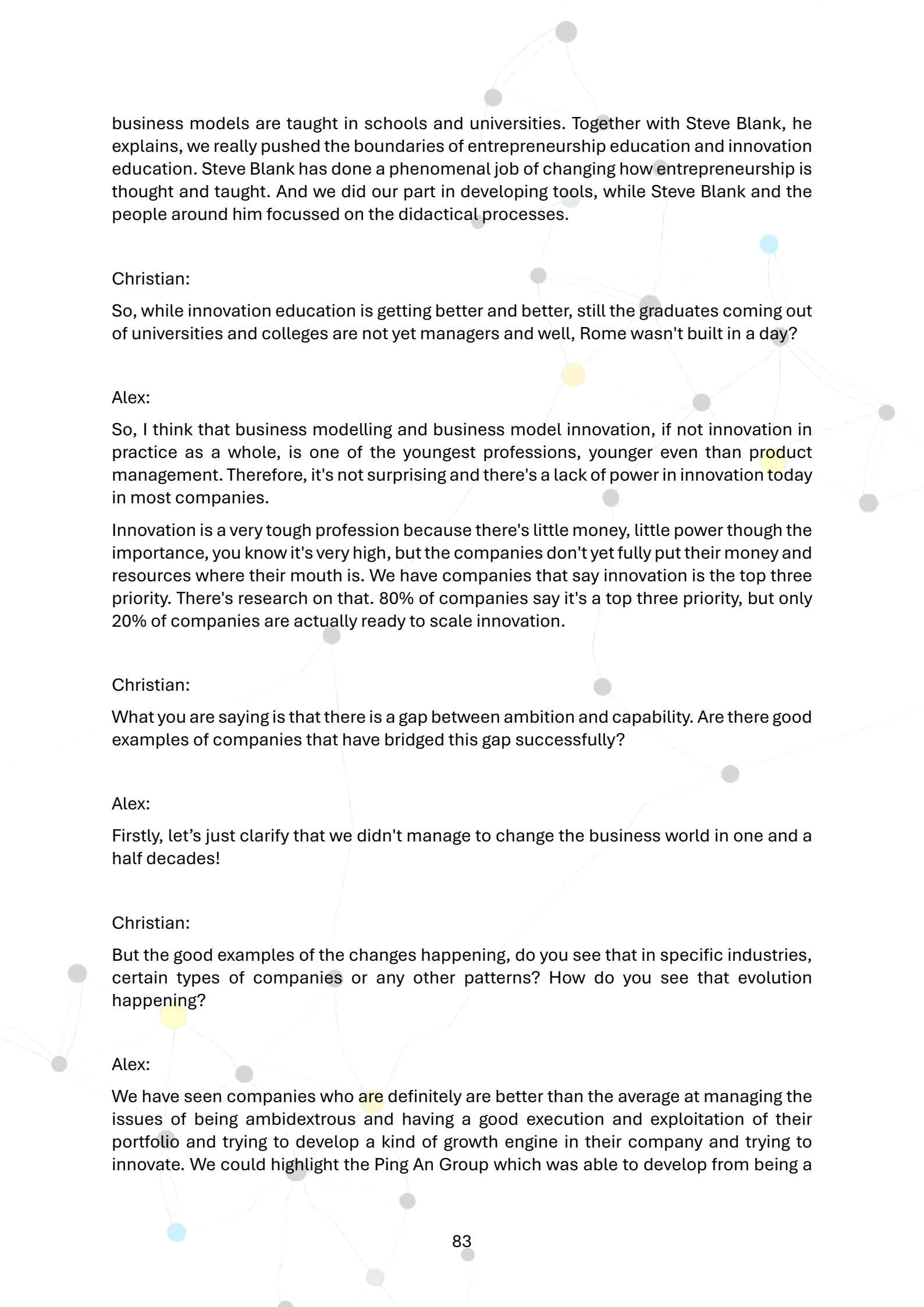
There's a crucial knowledge gap of the old guard currently in management positions, because they actually, don't know how innovation works. The younger generations do, and so there's a lot of tension in companies today.

Christian:

What you're also saying is that these the managerial capabilities that are going to be crucial to the future success of companies are still too far away from management and even too far away to be able to affect managerial decisions?

Alex:

Agree. And I think that's a big issue, right, that we have been trying to affect through the academic part of our work. In particular, Yves has put a lot of effort into changing the way



business models are taught in schools and universities. Together with Steve Blank, he explains, we really pushed the boundaries of entrepreneurship education and innovation education. Steve Blank has done a phenomenal job of changing how entrepreneurship is thought and taught. And we did our part in developing tools, while Steve Blank and the people around him focussed on the didactical processes.

Christian:

So, while innovation education is getting better and better, still the graduates coming out of universities and colleges are not yet managers and well, Rome wasn't built in a day?

Alex:

So, I think that business modelling and business model innovation, if not innovation in practice as a whole, is one of the youngest professions, younger even than product management. Therefore, it's not surprising and there's a lack of power in innovation today in most companies.

Innovation is a very tough profession because there's little money, little power though the importance, you know it's very high, but the companies don't yet fully put their money and resources where their mouth is. We have companies that say innovation is the top three priority. There's research on that. 80% of companies say it's a top three priority, but only 20% of companies are actually ready to scale innovation.

Christian:

What you are saying is that there is a gap between ambition and capability. Are there good examples of companies that have bridged this gap successfully?

Alex:

Firstly, let's just clarify that we didn't manage to change the business world in one and a half decades!

Christian:

But the good examples of the changes happening, do you see that in specific industries, certain types of companies or any other patterns? How do you see that evolution happening?

Alex:

We have seen companies who are definitely are better than the average at managing the issues of being ambidextrous and having a good execution and exploitation of their portfolio and trying to develop a kind of growth engine in their company and trying to innovate. We could highlight the Ping An Group which was able to develop from being a

traditional insurance company towards becoming a growth engine in healthcare and Fintech.

Yves adds:

We have a good base of customers in Strategyzer, where we have assisted in managing the innovation process and creating an exploration portfolio. So yes, I think it's possible and some companies demonstrated that it was possible to do it.

3. The necessity of leadership commitment

Christian:

Are there any similarities between these companies? What is it that when you see these companies that are able to move into business model innovation in, in this sense and to develop those new managers, I think do they have any similarities?

What I mean is; what should we be looking for?

Alex:

The similarity across these companies is leadership commitment. It's the time the CEO and the leadership team spend on innovation. That is the number one pattern. To innovate beyond mere incrementally different products or technologies, companies need to allocate the necessary time and resources to innovation. In companies that are good at innovation, the CEO actually spends time supporting innovation. We like to say that it should be at least 40% of their time. So, companies where the leadership is not dedicated to actually working on innovation, and instead of getting on with it settle for the talk, will not innovate. It will not happen, that's the first aspect.

The second aspect is that the responsible for innovation has to be very high in the hierarchy, referring directly to the CEO or even the Co-CEO of the company dealing with this exploration portfolio. We have observed that innovation needs power to flourish. So in companies that are good at innovating, innovation has power and prestige.

It is interesting that sometimes innovators still call themselves rebels and pirates. Historically, rebels and pirates get killed. I think that's the old school of innovation; let me be a rebel or a pirate and then you know, if I'm lucky, I don't get killed. I think that in the new school of innovation, the CEO and the leadership team spend time on innovation and innovation is very important according to the organisation chart; and the function has power.

4. The ability to kill projects

Yves continues:

I think that's a very interesting point, which leads to the third important point, namely the ability to kill projects in the exploration portfolio. This is slightly different for exploitation-stage projects, of course. But I think in innovation, if we observe a company they have to stop maybe six out of ten projects, or something in that rate, just to be able to push at least some innovation projects towards execution. And from our evidence, very few companies feel comfortable killing projects because we invest in ideas and ideas matter, right? So we should be able to kill an idea that looks good but lacks evidence.

These three aspects are important for us and we have seen some companies able to apply this kind of thinking. For example, the Ping An Group and Bosch are examples of companies that were able to innovate and to push new innovative business models into the market while still exploiting the existing business models.

5 Implementation requires organisation-wide understanding

Christian:

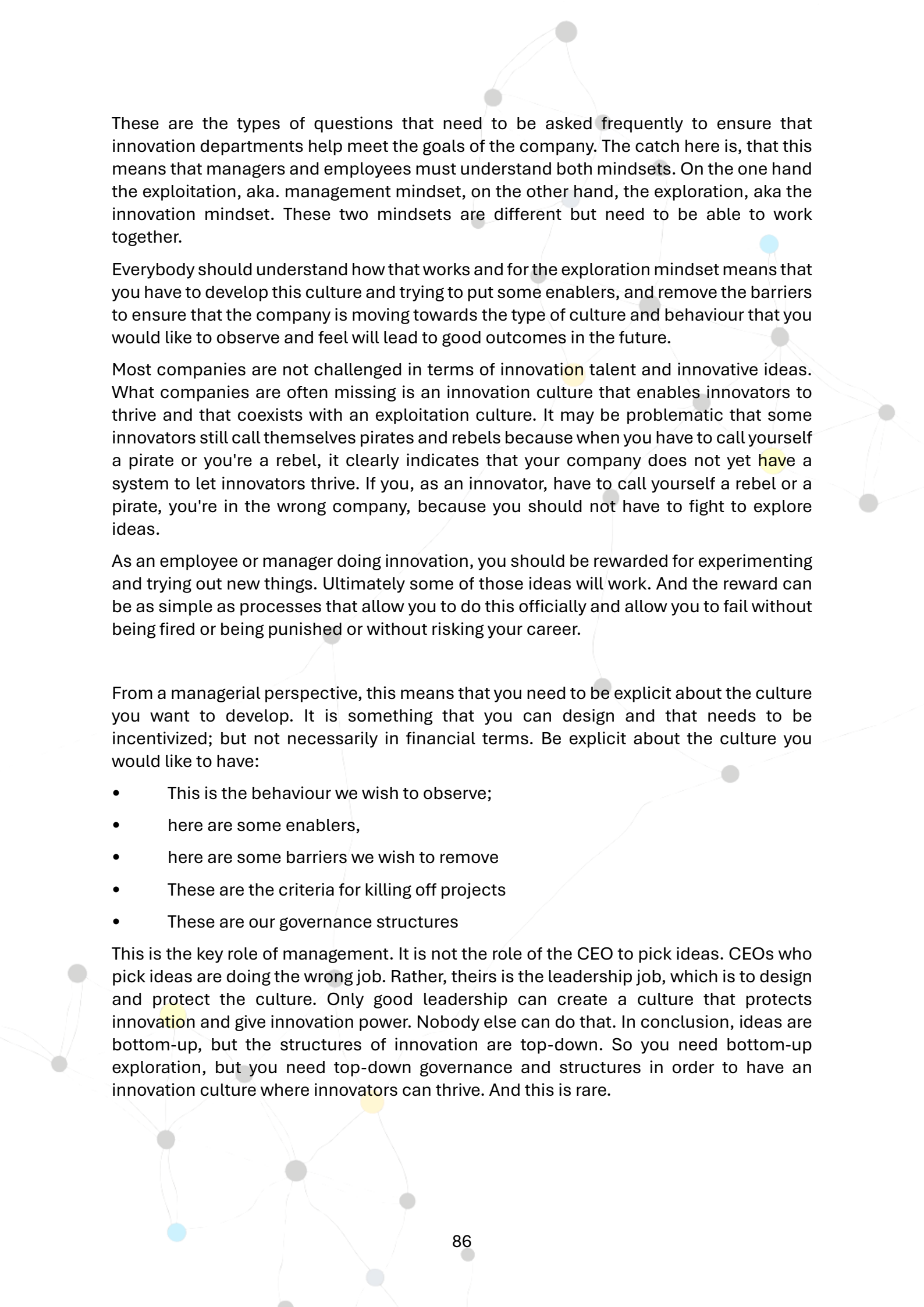
Ok, the ability to make prioritizations and choices is key. What about the implementation part of the governance structure; what's crucial when you look at implementation?

Alex:

In terms of the main points here, I want to highlight in particular getting people across the organisation to understand how innovation works, and that in innovation, getting ideas is not important, but the ability to test and iterate quickly on ideas, kill ideas and invest in those ideas that work, is. And these two mechanisms are very different. It is important to understand that the exploration mindset is different from the exploitation mindset. And everybody in the organisation needs to understand that it's not just a case of, oh, the innovation department is over there. They live in that beautiful building where you put up sticky notes. That's a cynical view of innovation.

The contemporary view of innovation should rather be that the CEO understands innovation, innovation is embedded throughout the whole supply chain, and managers should be asking questions like:

- Are we on time?
- Are we on budget?
- What did we learn from the latest innovation projects we completed?
- Which projects should we continue to invest in?
- Which projects should we kill?



These are the types of questions that need to be asked frequently to ensure that innovation departments help meet the goals of the company. The catch here is, that this means that managers and employees must understand both mindsets. On the one hand the exploitation, aka. management mindset, on the other hand, the exploration, aka the innovation mindset. These two mindsets are different but need to be able to work together.

Everybody should understand how that works and for the exploration mindset means that you have to develop this culture and trying to put some enablers, and remove the barriers to ensure that the company is moving towards the type of culture and behaviour that you would like to observe and feel will lead to good outcomes in the future.

Most companies are not challenged in terms of innovation talent and innovative ideas. What companies are often missing is an innovation culture that enables innovators to thrive and that coexists with an exploitation culture. It may be problematic that some innovators still call themselves pirates and rebels because when you have to call yourself a pirate or you're a rebel, it clearly indicates that your company does not yet have a system to let innovators thrive. If you, as an innovator, have to call yourself a rebel or a pirate, you're in the wrong company, because you should not have to fight to explore ideas.

As an employee or manager doing innovation, you should be rewarded for experimenting and trying out new things. Ultimately some of those ideas will work. And the reward can be as simple as processes that allow you to do this officially and allow you to fail without being fired or being punished or without risking your career.

From a managerial perspective, this means that you need to be explicit about the culture you want to develop. It is something that you can design and that needs to be incentivized; but not necessarily in financial terms. Be explicit about the culture you would like to have:

- This is the behaviour we wish to observe;
- here are some enablers,
- here are some barriers we wish to remove
- These are the criteria for killing off projects
- These are our governance structures

This is the key role of management. It is not the role of the CEO to pick ideas. CEOs who pick ideas are doing the wrong job. Rather, theirs is the leadership job, which is to design and protect the culture. Only good leadership can create a culture that protects innovation and give innovation power. Nobody else can do that. In conclusion, ideas are bottom-up, but the structures of innovation are top-down. So you need bottom-up exploration, but you need top-down governance and structures in order to have an innovation culture where innovators can thrive. And this is rare.

6. Giving life to new business models

Christian:

One point I noted down, which I have noticed especially in large multinational companies is that while they are innovate, able to bring ideas forth make implementation plans etc., things tend to go wrong when an innovation or new business model has to fight for resources with the existing business units. So, in terms of what you're saying, here this, this the leadership role and the maybe the middle management role, what about the CFO role? There's sometimes a clash when new innovation, new business model innovation comes in and has to fight for resources. What would be your recommendation in that type of situation?

Yves:

I think we have to remember that the innovation unit is a part of the company and **should** be considered a central cogwheel. It's not a start-up all by itself. Therefore, you need to create links with the existing activities in the company. When you decide to go for the implementation phase, you should have access to the resources and the capabilities present on the execution side.

And I think maintaining these links is crucial for maintaining and aligning those two cultures. The links need to be a kind of ambassador that can manage relationships on both sides of this chasm. It comes from the fact that when exploitation and exploration do not live in harmony, that's when you get issues and problems. But when you have everybody, you know who understands here are the new things we're developing, that's building our future.

In excellent companies, the managers can explain: This is the innovation strategy, here is the project portfolio we are currently managing, this is why they are crucial to the company's future success (how they help meet objectives).

Christian:

So what you are saying is, that it is a challenge in companies that they are simply badly managed in terms of the innovation function and how it contributes to the overall objectives of the company?

Alex:

Yes. **S**uccessful companies openly manage their business portfolios, strategically allocating resources and clearly communicating why they're investing in future ventures. Unlike companies with poor innovation systems, there's no internal conflict; leaders of existing businesses are involved and supportive, fostering a transparent environment that drives sound portfolio management. So, I think those challenges are really a big thing in companies that do not have good innovation systems and do not do sound portfolio management.

Portfolio management for business models is a new crucial capability. Just like managing a product or brand portfolio, successful companies now need to adopt "modern portfolio management" for their business models. This means strategically investing in both established (potentially declining) models and emerging ones, ensuring a healthy balance for future growth. So it's maybe just portfolio management, but it's modern portfolio management.

Business model innovation is new. That's why we do not yet have modern portfolio management that includes business models. But leaders who work on this, fully understand how this works and that's the reason why the evidence-based processes that you develop in the exploration is key. Because you have to demonstrate to the people in charge of execution that this project has a potential future. And sometimes you don't integrate them, you create a new profit and loss statement, right?

Think of Amazon Web Services. That was such a new business model. It didn't even cannibalize anything that they were doing, but they had to create a completely new PL. Portfolio management means that some of the new business models will be integrated, and some of them will live as a completely new business unit. But we are deliberately investing in the future by doing this explicit portfolio management. And if people don't understand it, obviously they're going fight it. You need to have a clear strategy and implement it. Contemporary strategy is concerned with the portfolio management of business models.

I would not call this implementation per se, but rather resource allocation into the business models that show evidence that they can grow.

7. Future perspectives and sustainability

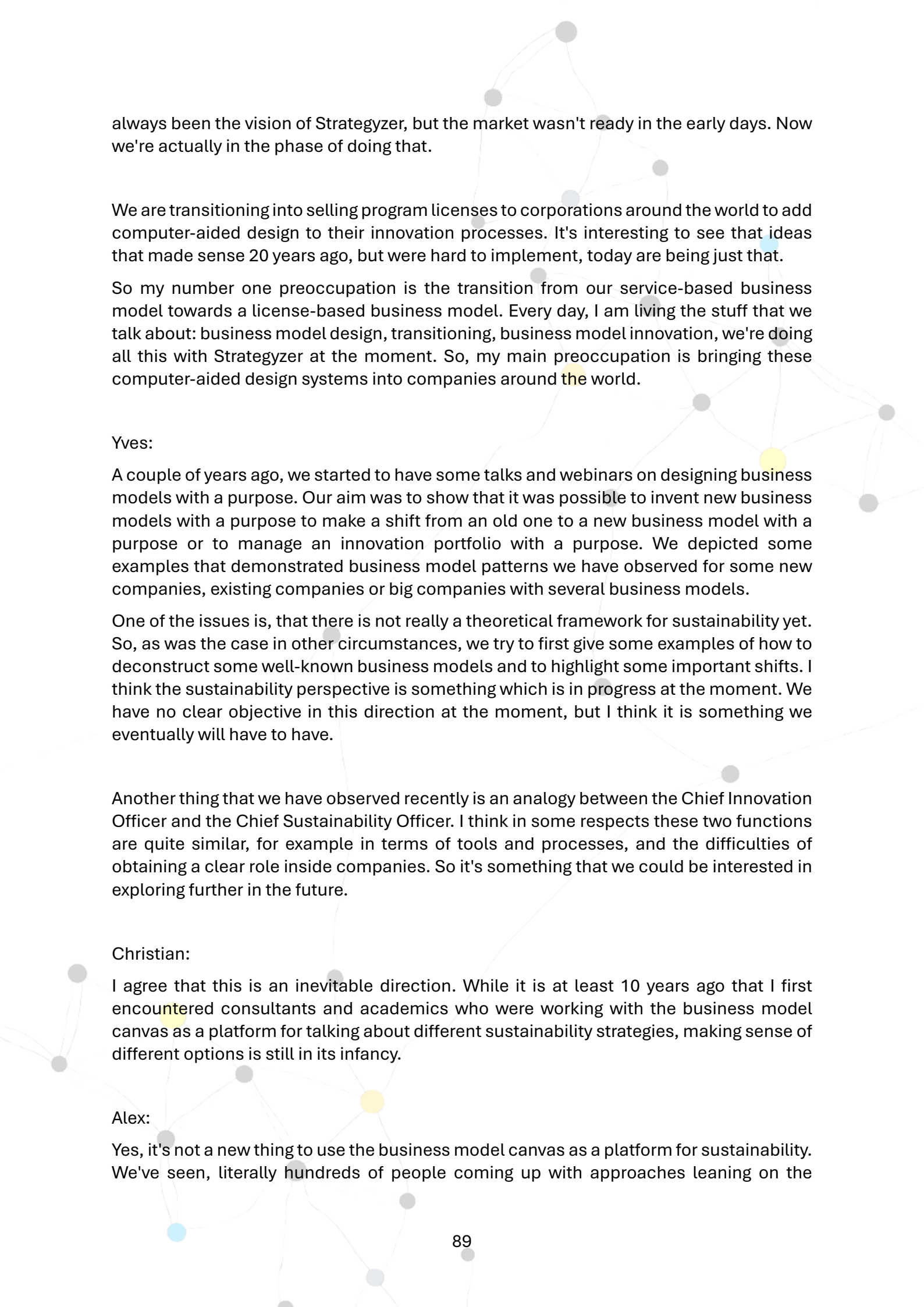
Christian:

On a concluding note, what are you both working on at the moment? And then one sub-question, what do you think about all the pressure around sustainability versus business model innovation?

Alex:

Maybe I'll just quickly answer the first one and then let Yves talk about sustainability. So you know when Yves and I started to work together in 2000, yeah, a long time ago, Yves had this idea that we could bring the power of computer-aided design to business thinking. Not just to make decisions, but also to design business models. Just like architects use computer-aided design to make buildings.

Our initial idea was to use computer-aided design for businesses as an alternative to the business plan approach. We worked on those ideas and there was even a prototype in Alex's doctoral dissertation (Osterwalder, 2004) of how that could be implemented, illustrated with XML. So now, today, in Strategyzer, we are implementing exactly that. It's



always been the vision of Strategyzer, but the market wasn't ready in the early days. Now we're actually in the phase of doing that.

We are transitioning into selling program licenses to corporations around the world to add computer-aided design to their innovation processes. It's interesting to see that ideas that made sense 20 years ago, but were hard to implement, today are being just that.

So my number one preoccupation is the transition from our service-based business model towards a license-based business model. Every day, I am living the stuff that we talk about: business model design, transitioning, business model innovation, we're doing all this with Strategyzer at the moment. So, my main preoccupation is bringing these computer-aided design systems into companies around the world.

Yves:

A couple of years ago, we started to have some talks and webinars on designing business models with a purpose. Our aim was to show that it was possible to invent new business models with a purpose to make a shift from an old one to a new business model with a purpose or to manage an innovation portfolio with a purpose. We depicted some examples that demonstrated business model patterns we have observed for some new companies, existing companies or big companies with several business models.

One of the issues is, that there is not really a theoretical framework for sustainability yet. So, as was the case in other circumstances, we try to first give some examples of how to deconstruct some well-known business models and to highlight some important shifts. I think the sustainability perspective is something which is in progress at the moment. We have no clear objective in this direction at the moment, but I think it is something we eventually will have to have.

Another thing that we have observed recently is an analogy between the Chief Innovation Officer and the Chief Sustainability Officer. I think in some respects these two functions are quite similar, for example in terms of tools and processes, and the difficulties of obtaining a clear role inside companies. So it's something that we could be interested in exploring further in the future.

Christian:

I agree that this is an inevitable direction. While it is at least 10 years ago that I first encountered consultants and academics who were working with the business model canvas as a platform for talking about different sustainability strategies, making sense of different options is still in its infancy.

Alex:

Yes, it's not a new thing to use the business model canvas as a platform for sustainability. We've seen, literally hundreds of people coming up with approaches leaning on the

Business Model Canvas and I think that's great because the key to sustainability will be business models that harmonize profit and purpose. So today the problem is that the conventional thinking on purpose and impact comes at the expense of profit. We have been looking at some of the existing business models we know and we're not saying all of them need to go in the direction of sustainability, but some of them business models can harmonize purpose, impact and profit and that's where it gets really interesting.

But that also requires business model innovation.

So you know, just like Henry Chesbrough's example of Xerox bringing the first photocopier to the market, which was way too expensive but did something that you know couldn't be done at the time, we think the same thing will be evident in sustainability technologies. There will definitely be products and value propositions that today we can't bring to the market with traditional business models. So we have to find new business models where impact and purpose and profitability are in harmony. Therefore, it is inevitable that business model innovation will play a crucial role in sustainability.

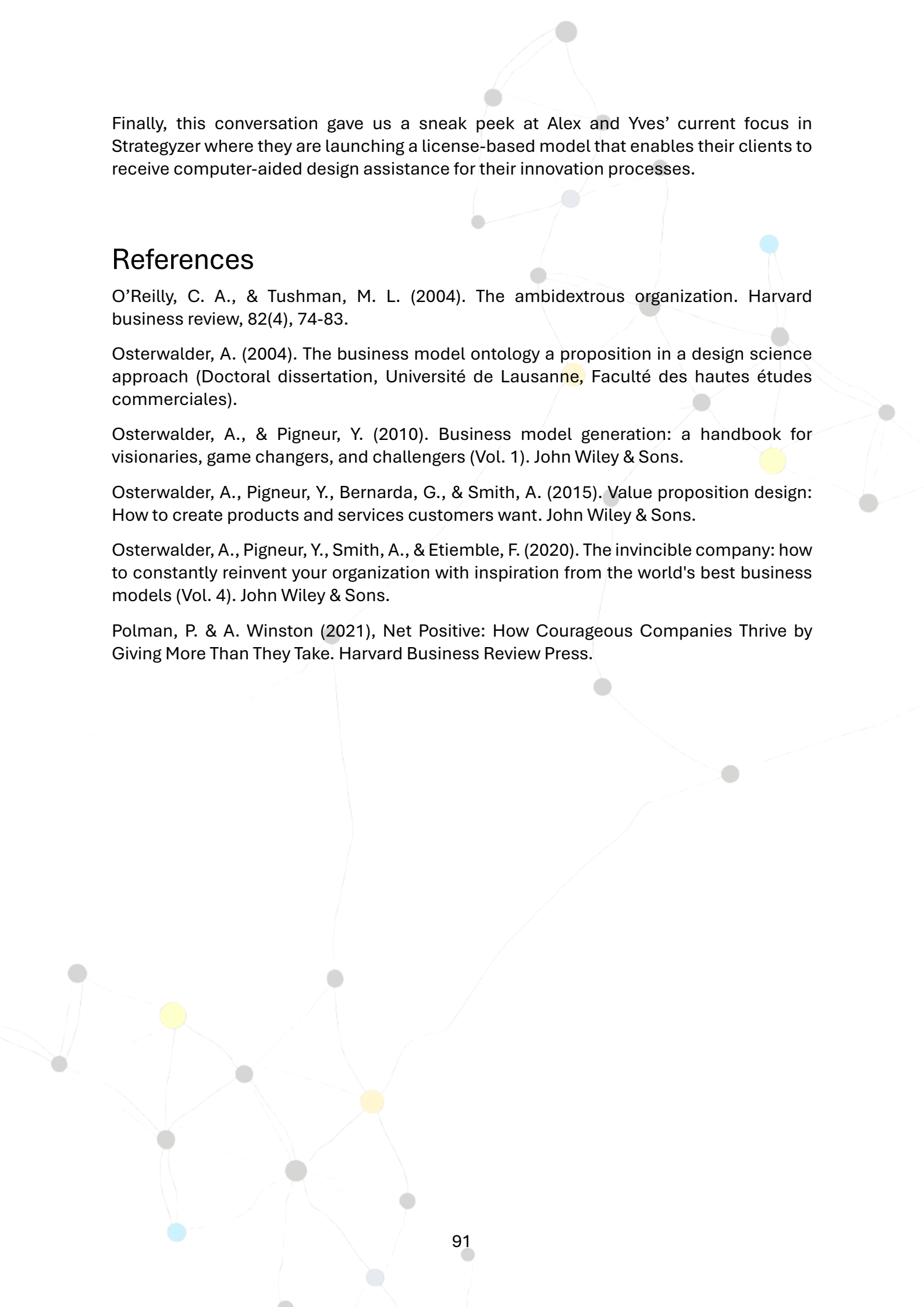
I think it is wrong to think that profit is at the expense of sustainability. This is not true. And profit is not a bad thing. It can help because profit can accelerate the impact, and That is when it gets really interesting. This is actually what Paul Polman tried to demonstrate in Unilever that positive impact and profits could go hand in hand (Polman & Winston, 2021).

8. Concluding remarks

This interview-based article with Alex Osterwalder and Yves Pigneur, who invented the Business Model Canvas one and a half decades ago, highlights current challenges for companies in doing business model innovation.

First, Alex and Yves highlighted the major challenges they are seeing at the moment. One of these was that companies have inadequate governance structures for allowing innovators to do decent work, and in addition, they highlighted that most of today's managers are not knowledgeable about what innovation and business models are about. As the interviewer, I took myself the liberty of formulating the conclusion: the old guard knows jack shit about innovation.

Our conversation identified three enablers to help overcome the challenges of business model innovation. First, companies need to ensure that they have leadership commitment and actually allocate both management time and resources to the company's innovation set-up and activities. Second, companies need to learn how to kill ideas in the exploration stage. This is important because every company needs to focus their innovation efforts. This will help to ensure that innovation unit budgets and resources are channelled in the most fruitful directions. Third, companies must build an innovation culture that coexists with an exploitation culture and in which innovators can thrive. In successful companies, innovators are not pirates; they are highly esteemed contributors to corporate success.



Finally, this conversation gave us a sneak peek at Alex and Yves' current focus in Strategyzer where they are launching a license-based model that enables their clients to receive computer-aided design assistance for their innovation processes.

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