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Embedding Strategic Agility

A Leadership Agenda for Accelerating Business Model Renewal

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Strategic discontinuities and disruptions usually call for changes in business models. But, over time, efficient firms naturally evolve business models of increasing stability - and therefore rigidity. Resolving this contradiction can be made easier by developing three core meta-capabilities to make an organization more agile: strategic sensitivity, leadership unity and resource fluidity. This article reviews the underlying determinants of these capabilities, based on detailed research undertaken in a dozen companies who were reconceiving their business models - among others, Nokia, easyGroup, HP, SAP and Kone are used as examples. We propose a repertoire of concrete leadership actions enabling the meta-capabilities needed to accelerate the renewal and transformation of business models. To organize our argument we borrow the three main dimensions of the strategic agility framework presented in our earlier work, and develop corresponding vectors of leadership actions, each of which can enhance a firm's ability to renew its business models.

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Introduction

How can CEOs and their leadership teams radically accelerate the evolution of their business models? This is a critical question: many companies fail, not because they do something wrong or mediocre, but because they keep doing what used to be the right thing for too long, and fall victim to the rigidity of their business model. In the face of discontinuities and disruptions, convergence and intense global competition, companies now need to transform their business models more rapidly, more frequently and more far-reachingly than in the past.

Business models can be defined both objectively and subjectively. Objectively they are sets of structured and interdependent operational relationships between a firm and its customers, suppliers,

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complementors, partners and other stakeholders, and among its internal units and departments (functions, staff, operating units, etc). These 'actual' relationships are articulated in procedures or contracts and embedded in (often) tacit action routines. But, for the firm's management, business models also function as a subjective representation of these mechanisms, delineating how it believes the firm relates to its environment. So business models stand as cognitive structures providing a theory of how to set boundaries to the firm, of how to create value, and how to organise its internal structure and governance.[1] Both as objective relationships, based on contracts and organizing routines, and as their collective cognitive representation, business models tend also to be naturally stable, and hard to change.

Their stability is further increased by the search for efficiency and predictability, particularly in periods of rapid growth, where the reliable and efficient scaling up of operations becomes critical.[2] Such stability is required for efficiency: in traditional management practice, success is based on routine repetition of tasks by semi-skilled workers, and the phenomenon of convergence-to-fit - i.e., the growing adaptation to a particular situation - contributes to increase their stability.[3] But such stability is also likely to result in a growing rigidity, which inevitably limits a firm's strategic agility and thus its ability to renew and reform itself.

To develop our prescription for business model renewal, we build on the *strategic agility* framework developed from our earlier empirical research on a dozen companies in the information technology industry which were reconceiving their business models.[4] This work conceptualised strategic agility as the *'thoughtful and purposive interplay'* on the part of top management between three 'meta-capabilities':

- **Strategic sensitivity**: the sharpness of perception of, and the intensity of awareness and attention to, strategic developments;
- **Leadership unity**: the ability of the top team to make bold, fast decisions, without being bogged down in top-level 'win-lose' politics;
- **Resource fluidity**: the internal capability to reconfigure capabilities and redeploy resources rapidly.

We have observed successful business model renewal and transformation as being one of the main outcomes of strategic agility - in conventional academic terms we could call it a dependent variable. First, heightened strategic sensitivity allows firms to identify opportunities for new business models and also to be sensitive to the timely need for the renewal and transformation of their existing business models. Second, business model changes often involve gut wrenching decisions for executives, calling for difficult and risky personal adjustments and collective commitments. New adaptive leadership work and leadership team unity are essential to enable shifts in business models. Thirdly, resource fluidity is called for to allow firms to redeploy and reallocate their resources - particularly people - to new opportunities or new activities in a transformed activity system.

This article proposes a repertoire of concrete leadership priorities and actions enabling the meta-capabilities needed to accelerate the renewal and transformation of business models, and make more likely that such renewal efforts will succeed. To organize our argument we borrow the three main dimensions of the framework developed in our earlier work, and develop three corresponding vectors of five recommended leadership actions for each dimension, as illustrated in Table 1. Each of these sets of leadership actions can contribute to, and condition, a firm's ability to renew its business models successfully.

A leadership agenda for accelerating business model evolution

Heightening strategic sensitivity

Anticipating: sharpening foresight

This is perhaps the most classic approach and the hallmark focus of the field of strategy. Superior anticipation and greater foresight allow deliberate reforms of business models to be undertaken in time for firms to maintain strategic advantage and value creation.

Table 1. Accelerating Business Model Renewal: The Leadership Action Agenda

Strategic Sensitivity	
1. Anticipating:	Sharpening foresight - Explore future usage concepts - Do not over-rely on foresight tools (e.g. Scenario planning)
2. Experimenting:	Gaining insight- Probing. Discovering 'lead locations,' innovation hotspots - Local experiments, in-market tests - Strategic and reflective use of corporate venturing
3. Distancing:	Gaining perspective - Nurture an 'outside-in' perspective through a rich network of personal contacts - Hearing the voice of the periphery
4. Abstracting:	Gaining generality - Restating business models in conceptual terms
5. Reframing:	Seeing the need for business model renewal - Engaging in honest, open and rich dialogue around strategic issues
Leadership Unity	
6. Dialoguing:	Surfacing and sharing assumptions, understanding contexts - Explore underlying assumptions and hypotheses, not just conclusions, developing common ground
7. Revealing:	Making personal motives and aspirations explicit - Transparency and clarity of motives brings mutual respect and trust, and understanding of positions
8. Integrating:	Building interdependencies - Define a valuable common agenda that conditions success
9. Aligning:	Sharing a common interest - Beyond incentives, give deeper common meanings
10. Caring:	Providing empathy and compassion - Provide the personal safety needed to be playful
Resource Fluidity	
11. Decoupling:	Gaining flexibility - Organise by customer/segmentation-based value domains.
12. Modularising:	Assembling and disassembling business systems. - Develop 'plug and play' functionality for business systems and processes
13. Dissociating:	Separating resource use from resource ownership and negotiating resource access and allocation
14. Switching:	Using multiple business models - Having different business model infrastructures in parallel and aligning and switching products between them
15. Grafting:	Acquiring to transform oneself - Import a business model from acquired company

Foresight remains important today, but the unexpected cannot be modelled, and nor can it always be identified by reviewing converging trends and assessing their interdependent systemic impact. By their very nature, gathering storms and emerging opportunities generate consequences that cannot all be anticipated. In retrospect, of course, it's easy to ask 'Why didn't we see this coming? 'How come we didn't connect the dots?' But, in fact, connecting the dots ex-ante is hard - and by the time the pattern can be discerned clearly, it's often too late.

The companies we researched were trying to extend their time horizons, often via attempting to anticipate how end-users might use their future products, even though we know reactions of potential users to radical innovations are hard to anticipate. For example, Intel and Microsoft (and many others) anticipate the development of 'ambient computing'. The concept is obviously seductive, but while the staggering possibilities it might open promise to make dreams from the realms of science fiction come true, they are also remarkably hard to anticipate. Even in much more limited innovations, surprises are always present: text messaging was an unexpected, runaway success — but given the very high expectations engendered by its success, the only modest development of peer to peer picture exchange has disappointed Nokia, and others.

So the key to business model agility is not simply to increase the lead times available for transformation through better forecasting. The more experiential the goods or the service the more difficult this becomes. Forecasting tools are at their best where the continuity of an existing business model faces known risks: they are less useful in aiding the emergence of new business models or the transformation of existing ones in the face of discontinuities.

Experimenting: gaining insights

Short of accurate forecasting and scenario planning, experimenting provides insights that may prove useful to adapt business models. 'Probing' can allow one to experience the future, provided the probes are well directed.[5] A few years ago Nokia invested in a development centre in Vancouver, British Columbia. The importance of its location - a leading multicultural, multi-ethnic city in the Pacific rim area, and a centre of development for digital entertainment, with a vibrant venture capital community - was not lost on Nokia. Vancouver offered a location of choice for Nokia to learn about new cultural and entertainment trends, and new types of creative communities, beside the more obvious Asian locations.[6] The choice of location and methods for experimenting and probing is critical in guiding the evolution of business models. Some locations are more 'closed' than others, as western companies setting up R&D labs in Japan discovered decades ago.[7] Certain types of knowledge — the more collective, tacit and contextually embedded - are also more difficult to access, and require co-practice in-situ to be fully understood.[8]

Of course, experiments, per se, are not going to change business models — but they may be very valuable precursors, in two ways. First, they may challenge core business assumptions, or at least help to define and sharpen them. Second, they may prototype and pilot change, in particular in multi-unit/multi-site companies. A retailer, for instance, may selectively modify its retail concept in response to changing demographics in lead locations as a precursor to more widespread (or perhaps complete) concept change and far reaching reorganization. Although less directly replicable than across stores in a retail system, business model changes can similarly be piloted in individual divisions in a diversified company, or even across projects and products.

Conversely, transforming business model 'probes' are hard to implement, and their results even harder to assess in very focused, integrated (single business/single product) companies. Take Nokia as an example: in the mid 1990s the company engaged in corporate venturing, following a (somewhat serendipitous) yearly campaign on 'intellectual leadership' influenced by the work of Gary Hamel and C. K. Prahalad. From a purely business standpoint, few of its ventures succeeded and nearly all were terminated. Yet the creation of a new venture board, a new venture organization and of a new business development forum (NBDF) are now credited with leading on to Nokia's strategic awareness of the importance of the internet and of alternate access technologies (such as Wi-Fi and now WiMax) and VoIP, at a time when many of its competitors remained mesmerized for years with the European service operators' licence buying frenzy and full commitment to 'third generation' (3G) licences and technologies.[9] The insight and experience gained through ventures, and the existence of a plurality of fora for dialogue among executives about key strategic issues showed themselves of great value in helping Nokia's business model evolve toward adopting the internet, even though the corresponding revenue models and ecosystems were still unproven at the time.

Distancing: gaining perspective

In Nokia's case, another benefit of the corporate venture process, and of early 'skunkwork' product breakthroughs within its Mobile Phone business group (such as the first 'communicator' smart phone, and project 'Calypso' - the first camera phone - both of which resulted from informal emergent development projects), was the opportunity for executives to take some distance from the day-to-day running of their core businesses and gain some perspective on their firm's past evolution and its future strategic trajectory. In companies that have lost business model agility, however, the external world is only perceived as a series of partial 'close ups'. The venturing process allows a more holistic, rather than fragmentary picture to emerge.[10]

Being able to stand 'outside' one's own organization allows one both to 'model' it and to begin to imagine a whole different system of activities and relationships.

Generally, the broader challenge here for executives immersed in the day-to-day implementation of a particular business model is to be able to reflect about its totality rather than only attend to specific elements and relationships in its activity system and ecosystem. Being able to stand 'outside' one's own job or organization allows one both to see it from different perspectives, and to start to 'model' the organization and its relationships to its environment, and consider how they might be different, and to begin to imagine a whole different system of activities and relationships.

A rich personal network of external professional contacts and a deep understanding of what the organization contributes to customers can help to sustain this 'outside-in' perspective. Seemingly deceptively simple questions such as 'how do we make money, *really*?' or 'what do we *actually* provide our customers?' may be enough to trigger some distance. More often, a new, genuinely different, perspective from the outside may be needed, and good, involved, but independent external directors, new hires among senior managers, consultants, and academic researchers can all contribute to build that perspective. Interestingly, Bower's recent research on CEO succession suggests that the most successful newly appointments are 'insiders', but from the periphery. Their career has flourished at a sufficient distance from the centre of the company for them to gain a thoughtful perspective on its workings, while at the same time knowing them well enough to be realistic and effective in changing them.[11]

Abstracting: gaining generality

Being able to examine one's own business model at a critical distance also yields the ability to see it in abstract, i.e., to understand its more generalisable features and separate them from those that are more context-specific or historically inherited. To take an example: the easyGroup started when Stelios Haji-Ioannou, the son of a Greek ship-owner, established the group's core business - the no-frills, low-cost airline easyJet - which has by and large been remarkably successful, to the point where today it is one of the largest budget airlines in Europe. As an abstraction, he conceptualised easyJet's business model as a fixed capacity, high fixed cost service, with price elastic demand. Its key assets (airplanes) could also be redeployed relatively flexibly (Europe-wide) as a function both of demand and also of learning to forecast such demand.

By restating easyJet's business model in more abstract terms than an airline normally would, it became possible to consider a whole range of other services with comparable potential business models, from internet cafés to budget cruise ships. In theory, this provided a way for easyGroup to enter a range of new business domains, whilst building and leveraging on its core competencies. In practice, this led to both successes and failures, either because forays into new domains tested the limits of the business model (e.g., are High Street internet cafés sufficiently price sensitive?) or because key aspects of the business model of a new domain were not fully grasped (e.g., that movie distribution is effectively controlled by the studios, making an entry into movie theatres difficult).[12]

In contrast to easyGroup -, which is perhaps an exceedingly 'conceptual' company, aiming to apply the same theoretical business model to different domains with sometimes too little appreciation of their contextual specificity - Nokia is far more rooted in context. Together with a few others, it effectively created the GSM-based digital mobile phone industry in the late 1980s and, by 1998, had become the world's leading supplier of mobile phones. Its engineers and managers knew everything there was to know about GSM telephony; in fact, they had created a good part of that knowledge themselves! However this very intimacy with the technology made it difficult for them to take some distance from it, which left Nokia vulnerable, not only to imitators (e.g., Samsung, HTC, etc.) but also to innovators coming from internet service platforms (e.g., most prominently Google, but also Facebook and many others). Hence the critical role of its venture projects in having allowed Nokia to abstract its business model, move away from its roots and embrace the internet.

Being both 'rooted' (i.e. recognizing the context a business model comes from) and 'conceptual' (i.e., being able to abstract and generalize from it to divine what might apply to other contexts and thus move successfully from one business domain to another) obviously represents the key for abstracting one's business model to its conceptual essence without losing sight of its possible contextual dependency. Combining the two in the strategy development process contributes to strategic agility in a most valuable way.[13]

abstracting one's business model to its conceptual essence without losing sight of its contextual dependency [can be a valuable] contribution to strategic agility and business model renewal

Kone's recent redefinition of its business model provides a good example of trying to be both contextually grounded and conceptually abstract. A world leader in the elevator and escalator industries, Kone redefined itself in early 2008 as a 'people flow' solutions company – taking on a functional rather than product-based definition. Top management's central idea is that rapid and continuing high-density urbanization will call for more innovative, short-distance, people-mobility solutions, beyond (but including) elevators and escalators. This redefinition has been very well received by both employees and investors, who are now keen to propose new ideas for mobility solutions. Their simple business model redefinition from a product perceived as mature and uninteresting to a customer-oriented functional definition has been a breakthrough for the old traditional elevator company.

Reframing: imagining new business models

Distancing and abstracting allow for reframing – i.e., the generation of new perspectives and new alternatives – by considering the possibility of applying different business models to the same business. In strategically rigid companies, this is done only in response to competitive crises, usually triggered by an initially neglected or even derided 'inferior' innovation. Thus Xerox, for instance, felt small desktop copiers could not be of high quality because the first small photocopier technology was based on 'thermal paper' and delivered poor copies that quickly faded. The company was only saved by facing early first-hand experience of emerging Japanese competitors gained from Fuji-Xerox, its joint venture with the Fuji Photo Film Group in Japan.[14]

The ability to generate multiple strategic frames for a business model is rare and valuable. It requires cognitive diversity among executives, so that genuinely different and independent alternatives can be generated. Unfortunately, framing is usually either very monolithic (as with Xerox in the 1970s, Nokia in the 1990s and Polaroid throughout its history) or, where it is multiple, is fragmented and poorly reconciled into a feasible business model.[15] In too many companies, the framing of strategic and operational issues (i.e., how they are perceived, defined, situated with regard to each other, and thus given meaning) is either taken for granted – implicit and driven by the partial perception of the existing business model – or, where several frames do co-exist, different organizational members or subunits hold to different frames which are inconsistent and conflicting, or have not been effectively combined or otherwise reconciled.[16] In the companies we observed, many internal processes could be seen as contributing to framing flexibility and change, rather than to rigidity or inconsistency. These include high quality, open and honest dialogue around strategic issues, the use of flexible strategy teams and team decision-making stemming from adaptive rather than technical and autocratic leadership, in addition to the more obvious processes of measurements and rewards among senior executives that favour collaboration and contributions to overall corporate performance, rather than specialized or subunit achievements.[17]

A number of situations we analysed, where change was needed, lacked processes that could embed and sustain multiple frames in an organization. Framing was fragmented and conflicting, and the need for business model change was not equally strongly appreciated by all who needed to be involved. In that type of situation, an acquisition can play a role akin to that of a reagent in a chemical process, acting as a catalyst to transform rather than merely complement an existing business model. As an example, Timken was an incumbent leader in the bearings business, a proud and successful traditional company established for over a century. In the mid 1990s, after the end of the Soviet Union, Timken bought a plant in Poland (engineered by its global Japanese rival NSK) to serve the whole Soviet bloc market with a narrow range of bearings. This move was accepted internally as a way to serve Eastern Europe's booming markets, in line with Timken's multi-domestic or regional strategy. But the plant was a misfit - it was really a global sourcing platform. So why did they buy it? - to make the debate about becoming a more global company more 'real'. Up to that point the debate within Timken Europe had been muted and 'academic', while its leaders watched their market share being eroded by more efficient, globally configured competitors. The purchase of the Polish plant became a catalyst that precipitated a discussion about manufacturing rationalization, and ultimately triggered a complete reframing of the business model that transformed Timken from a multi-domestic into a global company.[18]

Fostering leadership unity

Strategic awareness would remain 'lettre morte' in accelerating business model change and renewal without a top management team willing to consider business model redefinition, and, more importantly, able to achieve collective commitment to taking the risks necessary to venture into new business models and (more difficult) to abandon old ones. To a great extent, leadership unity hinges on the ability of members of the top team to understand and trust each other: several critical behaviours can enable the build up of trust in the whole top team.

accelerating business model change and renewal [requires] a top team willing to venture into new models and (more difficult) abandon old ones

Dialoguing: surfacing and sharing assumptions, understanding contexts

Most management groups function nearly exclusively in debating mode: arguments get exchanged, and (at best) the strongest wins. But too often the executive who controls the largest revenue base or profit flow simply carries the day. Executives enter the debate as they would a tennis game: the shorter the exchange before they win the point, the better. And (as in tennis) they prefer a one-on-one game, i.e., to get their proposals, plans, budgets etc approved in a bilateral discussion with the CEO, rather than have them exposed to group deliberation by the executive team. As a team, the executive group thus becomes ineffective and incapable of far-reaching commitment to new business models, and adds negligible value to the quality of decisions.

Engaging in the practice of dialogue helps break this pattern. In essence, rather than hide genuine disagreements behind polished arguments and formal debate, CEOs must welcome open expressions of differences between their top executives. People should speak their mind openly, with no fear of retaliation, or of losing face in a collective process. The proverbial 'five whys' can help the team to engage in probing dialogue in a non-threatening way, and to lead all members to appreciate the limits of their understanding, and how it could be improved.

Rather than reach a decision that identifies winners and losers - and be based primarily on the strength of one input, perspective and framing - collective commitment is more likely to be built around the convergence of existing frames, or by them being transcended by the emergence of a new, well thought out collective frame. Whether specific tools or approaches such as adaptive leadership,[19] fair process,[20] or other methods are used to sustain a decisive dialogue (rather than a debating society or 'tennis' debate) does not really matter: what matters is that what emerges is a collective commitment, a bonding to the outcome of the decision process.

Revealing: making personal motives explicit

Practice in dialogue brings openness that allows the underlying motives of executives to become visible. This includes not just the way they think - their particular cognitive biases - but other important motives: aspirations and fears, satisfactions or discomforts. One of the most critical differences we observed here was the CEO's commitment to their team. Of course, as CEO's tenures become shorter and corporate performance more demanding, short-termism becomes less easy to escape. But looking back to the past, rather than to the future, is not a bad substitute here. For instance, one of the senior executives of SAP put a simple but powerful statement: '*We each earned our stripes in the past, we each know we deserve to be part of this group, and so do the others, there is no question about it*'. This 'personal safety' and mutual respect among top team members allows executives to reveal their deeper motives as well as their deeper concerns, and the more they do so, the more they accept these as 'givens' of their collaboration, the stronger the resulting team will be, and the greater its ability to make the clear collective commitments that are needed to shake up and transform a business model.

Integrating: building interdependencies

Fundamentally, the shift from the one-to-one relationships so characteristic of many companies (that prevent the discovery and adoption of new business models) to a collective process will raise the question: 'A top team, but for what?' Or more to the point: 'Why do we need to work together?'

In some companies, where the business model is fully integrated, the answer is clear. When SAP shifted its strategy to core platforms and more open application suites, it became obvious that the organization into separate business units (vertical 'industries', or types of application domains) no longer made sense. SAP is now organized as one single integrated platform business, where different members of the management board are responsible for different phases, or activities, in an integrated value-creation business model. The answer to the 'a team for what' question is then clear — it is to run, collectively, an integrated business.

When businesses are distinct, but highly interdependent, and pull in different directions (as in Nokia today, where the hardware unit wants differentiating embedded software and service capabilities and the software and services unit wants open universal availability to services) the top team's agenda becomes self-evident: it is to make integrated decisions and optimise the company's choices between proprietariness and openness. Beyond this, it also needs to discover new business development opportunities that straddle organizational subunits to combine products, platforms and services in innovative ways.

The answer to 'a team for what?' becomes less clear, and less substantial, the more diverse and independent the various businesses are. Beyond shared services, common facilities and the like, the agenda may be restricted to yearly improvement campaigns (à la GE) or to a difficult - and often fruitless - discussion about core competencies, or potential 'white space' opportunities that would recombine and bring resources and capabilities 'borrowed' from various existing businesses to new market spaces. To a certain extent, the value of interdependencies between businesses is not a given, but it can result from a dynamic strategic integration ambition, such as that skilfully executed by Disney over the past few years. From a conglomeration of media and theme park assets Disney, true to its origins, has become a formidable character brand building and deploying machine, through movies, magazines, derivative products and theme parks around the world. In other words, hidden opportunities may exist for smart strategic integration. Such strategic integration may not be easy to achieve, but seeking opportunities for integration (even if the search may, in the end, be somewhat frustrating and desultory) remains essential.

... beyond the mechanism of aligning incentives lies the appeal of a compelling mission.

Aligning: rallying around a common interest

Aligning interests is perhaps the most obvious mechanism — but one that is often understood only narrowly and mechanistically, as a problem of incentives. These obviously play a role, and a significant trend we observed in all the companies we researched was a growing reliance on incentives based on total corporate rather than subunit performance.

But beyond incentives lies the appeal of a compelling mission. Nokia saw mobile phones as an instrument of personal liberation, whether for Nigerian farmers or Chinese dissidents. Wishing to motivate his lieutenants, CEO Jorma Ollila evoked (internally) the image of the 'winter war', when Finland, in the winter of 1939, had succeeded in pushing back a Soviet onslaught with agile platoons of highly mobile troops. He wanted to show that Nokia, though smaller and newer to telecoms, could beat the established industry leaders. Shared values can act as an inner cultural and ethical compass that allows more flexibility in reconfiguring business models, and provides a deeper meaning to organizational members. So beyond the mechanics of incentives alignment, effective leaders can build both aspirational and emotional images that become sources of engagement, allowing the evocation of similar principles in new business models as in old ones.

Caring: providing empathy and compassion for empowerment

One quality of leadership unity that characterizes those companies that can reinvent their business models is when top managers 'care'. Beyond the obvious — like providing decent health care and other benefits — executives in caring companies cultivate a capability to empathise with others, and to be attuned to their emotional needs and expectations. This provides the personal sense of safety and mutual respect that allows people in the organization to be 'playful' in attempting new things and playing new roles on their way to discovering new business models. Many innovative organizations are playful, willing to change and experiment. In the top management team itself, playfulness comes more easily when personal motives are clear, and it is possible to disagree 'joyfully' but then to explore the assumptions behind the disagreements.

Making resources more fluid

Even a deeply felt commitment at the top does not always translate into vibrant and effective action. As discussed earlier, the inertia of existing structures, processes and beliefs throughout the organization and the evolving complexity - and consequent tendency toward increasing rigidity - of its existing business model often make change particularly difficult. Thus many CEOs we met were in the very painful situation of knowing what the deficiencies of their business model were, of perceiving impending strategic issues and anticipating how these issues would ultimately turn into financial problems, and yet feeling powerless in their being able to change course. A variety of leadership actions can help bring structural agility to this kind of situation.

Decoupling: gaining flexibility

Business model rigidity usually stems from the monolithic interplay between tightly coupled elements in a system whose overall functioning may be poorly understood, with the result that an 'if it ain't broke, don't fix it' attitude prevails. Systems evolve largely because modifying one element creates tension for other elements, which then adapt and change: but in a very tightly coupled system this cannot take place. Thompson identified the issue back in the 1960s, and proposed it be addressed via a stable, sheltered 'technical core' and a more flexible and adaptive periphery — and this prescription remains valid today.[21] In the late 1990s, Glaxo Welcome moved from relying on very few 'blockbuster' drugs (mainly, the antiulcer drug Zantax and the antiviral Zovirax) to having to develop and commercialise a much wider product portfolio. Chairman Sir Richard Sykes communicated the change in the metaphor '*we need to transform ourselves from a big aircraft carrier to flotillas of small fast ships*' — pointing to the need to decouple a very integrated, focused and centralized business model into distinct and autonomous - but well coordinated - entities.

Modularising: disassembling and reassembling business systems

Changing the business model itself can be made less risky and more affordable by modularising the underlying business system (processes and IT systems). So a particular combination of business system elements can be 'assembled' and brought to assist the implementation of a new business model.

Of course, modularising business systems works only through a limited range of activities and across a restricted business portfolio. For instance, Nokia had to learn how to organize and manage major software development projects when it got into platform and operating systems back in the 1990s: some of that was achieved via the Symbian alliance, inheriting capabilities from Psion, and combining forces with Ericsson and Motorola.[22] Similarly, today, as Nokia moves into advertising-revenue based, internet-delivered value propositions, large-scale software development expertise is still necessary, but no longer quite sufficient. The service business is so fundamentally different from the historical product business that only a limited number of business systems modules can be reused. However, as a result, the 'process and system library' expands, and will be available to be recombined to support a greater variety of business model innovations in the future.

Dissociating: separating resource use from ownership

In most companies there is a tight alignment between the boundaries of a business and its corresponding business model and the domain of responsibility of a senior executive. This alignment can be broken. Companies can dissociate their organizational structure (roles and responsibilities) from the underlying business processes and IT systems, and from their strategy, and hence allow greater structural flexibility within a given business model. This will not only have an impact on making business models less rigid, but can also help in reframing the business and break patterns of individual executive 'ownership'.

Companies can dissociate their organizational structure (roles and responsibilities) from their underlying business processes and strategy to allow greater structural flexibility.

Thus, when Nokia reorganized itself in 2004, it regrouped its previous nine value domains to decouple its customer facing organization into four business groups: networks, phones, multimedia devices (including gaming consoles, camera-phones etc.) and enterprise solutions. However, on average, 58% of the value added structures of these four groups were provided by shared platforms, technologies, logistics and supply and common support services such as IT and modular business processes. Collaboration from these common resource providers was paramount to these groups' success, and negotiations about differentiation and integration between them and business group staff became daily practice, allowing the business models to differ somewhat between groups without losing the advantage of operating as a single integrated company where it mattered. But by 2008 top management discovered that - for market reasons - the three businesses emanating from Nokia Mobile Phones had not really grown differentiated enough - most phones were becoming both multimedia devices and enterprise solutions, as opposed to professional devices. The resulting 2008 reorganization partly reintegrated the organization along function and capability lines, rather than as businesses and products.

Switching: using multiple models

A more radical differentiation and renewal solution is to create different - parallel but separate - business models, and to assign products and market segments flexibly, offering innovators a choice (albeit restricted) of alternative business models. An example here is Hewlett Packard: as a relatively widely diversified IT infrastructure company, with a very broad mission statement, it has focused its energies around selected 'routes to market', with different channels and logistics for different types of customers. Products and businesses could be 'switched' between business models in the course of their development, or at various points over their life cycle, and combinations of hardware and software flexibly configured and distributed through different routes to market.[23] Ann Livermore, EVP of HP's Technology Solutions Group, emphasized the importance of this:

> *We have an advantage of having multiple models and can hence migrate products between the different business models as products and businesses mature or markets change. For instance, when we take a high-volume supply chain management (SCM) process and apply it to servers, too, the cost and time savings are huge. Developing new business models and related capabilities takes on average six years, and when we can migrate to new business models in months you can understand the difference.*[24]

Grafting: acquiring to transform oneself

Initiating changes to business models internally is difficult (for reasons already discussed) and although business model transforming acquisitions are difficult too, many companies resort to them, some rather successfully. Grafting an acquisition with a very different business model onto existing operations becomes a stimulus for change. For instance, SAP had been a much admired, but highly specialized supplier of tightly integrated ERP (enterprise resource planning) systems to major companies over many years. It was started in the 1970s when a few engineers at IBM, disgruntled at seeing their ideas turned down, resigned and started a new company, with Imperial Chemical Industries (then one of the most sophisticated of the leading edge multinationals) as their first customer. Over time SAP sought to widen its market to mid-sized enterprises. When it aimed a new product – the R/3 platform, based on standard hardware platforms – at this market, Chevron Oil (at the time one of the 'majors'), was their first customer, pulling SAP back to focus on 'Fortune 1000' customers.

It was only in the late 1990s - under pressure from Oracle, and from the growth of open platform solutions and internet-based applications - that SAP's business model started to evolve, leading again to a further attempt to broaden its customer base to include smaller firms. Internet ventures in e-marketplaces, together with the acquisition of an internet portal company in California, propelled SAP into the internet world. Hasso Plattner, one of the company's founders and its strategic architect, spent increasing amounts of time around Silicon Valley. One of its acquisitions - Top Tier - saw the arrival of Shai Agassi, its visionary CEO-entrepreneur, who provided the driving force behind an open architecture platform and application approach, and quickly gained strong influence within SAP. This led to a new open architecture based platform business, which was first deployed by new mid-tier customers and later became a creeping substitute for SAP's traditional offerings.

Grafting usually results in a tapered transition (as in the SAP case) where the new business model initially complements the old, without threatening it openly and without directly challenging the organization's core beliefs. The new model gains influence only slowly over time, until it comes to lead the further development of the company. Perhaps only today does SAP see internet services, and software as a service delivered through some form of 'cloud computing', as important. And only when reintegration takes place - further down the road - will the practical substitution of the old business model by the new become apparent to all.

Transforming the business model of a successful company is never easy... inertia from many sources defends the status quo .... strategic agility is most obviously a keystone

Conclusion

Transforming the business model of a successful company is never easy, as inertia – from many sources – defends the status quo. This article sets out practical, actionable steps that a CEO and a corporate leadership team can take to foster a more purposive - and more strategic - evolution and adaptation of business models, making successful business model transformation more likely.

The actions suggested here echo the findings from our earlier empirical work on strategically agile companies. Strategic agility is most obviously a keystone to having the ability to transform and renew business models. In very stylised terms, anticipating, experimenting, distancing, abstracting and reframing can sharpen strategic sensitivity, making the company both more precise and accurate in the perceptions its executives have both of its (external) ecosystem and of its (internal) activity system. They also contribute to make executives more aware and alert about their environment. To build leadership unity, dialoguing, revealing motives, integrating roles, aligning aspirations and interests and caring and 'playing' are all determinants of a top team's ability to reach collective commitments and elicit true engagement toward them, among its members and from other members of the organisation. For implementing the agreed changes, switching between business models, decoupling activities, modularising business processes and dissociating resources from rigid ownership as well as switching between parallel models and grafting capabilities and platforms to engender catalysing transformation are all ingredients and determinants of a successful business model renewal.

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