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Initiative-taking, Improvisational Capability, and Business Model Innovation in Emerging Markets

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Abstract

Business model innovation plays a very important role in developing competitive advantage when multinational small and medium-sized enterprises (SMEs) from developed country enter into emerging markets because of the large contextual distances or gaps between the emerging and developed economies. Many prior researches have shown that the foreign subsidiaries play important role in shaping the overall strategy of the parent company. However, little is known about how subsidiary specifically facilitates business model innovation (BMI) in emerging markets. Adopting the method of comparative and longitudinal case study, we tracked the BMI processes of four SMEs from Denmark operating in China. Using resource-based view (RBV), we develop one theoretical framework which indicates that initiative-taking and improvisational capability of subsidiary are the two primary facilitators of business model innovation in emerging markets. We find that high initiative-taking and strong improvisational capability can accelerate the business model innovation. Our research contributes to the literatures on international and strategic entrepreneurship.

Keywords: *business model innovation, subsidiary, entrepreneurship, initiative-taking, improvisation*

INTRODUCTION

A recent global survey of more than 4,000 senior managers by the Economist Intelligence Unit found that the majority (54%) favored new business models over new products and services as a source of future competitive advantage (Amit & Zott, 2012). Small and medium-sized enterprises (SMEs) assume that these firms face, to a higher extent than large companies, resource constraints in terms of finance, information, management capacity, etc. (Buckley, 1989), as well as external barriers such as market imperfections and regulations (Acs et al., 1997). The role of business model innovation in multinational SMEs (MSMEs) continues to be a big issue of great interest to international and strategic entrepreneurship researchers, and a matter of great importance to MSMEs executives.

According to prior researches, business model innovation (BMI) is a process where a firm adopts a novel value proposition to explore and exploit its resources; both current and future (cf. Gambardella & McGahan, 2010; Nelson, 1993; Teece, 2007). Due to the large gaps or distances in the economic and institutional contexts between the developed and emerging markets, MSMEs who are from developed markets need to substantially innovate their prior business models designed for their home markets as the developed economies so as to adapt to the distinctive contexts in the host markets as the emerging economies (Cavusgil & Agarwal, 2002; Hansen et al., 2011; Khanna & Palepu, 2010). Business model can be only effective if it is designed properly for the specific local context. In the process of new business model innovation, the local subsidiaries of multinational SMEs definitely play a crucial role because the subsidiaries can tap into new ideas and opportunities in the local market, interact with other actors in the local environment, build unique capabilities on which the rest of the MNC can draw, and shape the overall strategy of the parent company (Bartlett & Ghoshal, 1998; Birkinshaw, 1997; Birkinshaw & Hood, 1998; Cantwell & Mudambi, 2005; Rugman & Verbeke, 2001; Ambos, Andersson & Birkinshaw, 2010; Birkinshaw et al., 2005). In keeping with Birkinshaw(1997), we define subsidiary as any operational unit controlled by the

MNC and situated outside the home country. The purpose of this study is to explore how SMEs' subsidiaries facilitate business model innovation.

We conduct the method of case study for theory-building (Eisenhardt, 1989; Pettigrew, 1990). The theoretically sampled cases for our study are four MSMEs from Denmark, all of which have their subsidiaries that have engaged in BMI projects in China. The primary contribution of this study is the process framework where initiative-taking and improvisation capability of subsidiary serve as two salient facilitators of BMI.

The rest of this study is organized into four sections. First, we will review the relevant literatures to seek for some theoretical guidance. Second, we will describe the method and the cases. Third, based upon the case evidence and comparing it with the extant literatures, we will present two sets of propositions about subsidiary's facilitation of BMI. Finally, we will discuss the emergent theoretical framework with its critical implications for future research, and we conclude at the end.

THORETICAL BACKGROUND

Our research focuses on how do multinational small and medium-sized enterprises which are from developed countries to innovate business model in emerging markets, and what core capabilities and drivers can facilitate the innovation process. There are three main literatures have the potential to provide needed insights into our research questions.

First, the literatures on business model innovation are relevant to our research questions. Even though there is no widely accepted definition of business model, there is one common theme, i.e., value proposition (Amit & Zott, 2001; Zott & Amit, 2010; Chesbrough & Rosenbloom, 2002). Keeping with the prior researches, we define business model innovation as a value creation process where a firm adopts a novel value proposition to explore and exploit its resources, both current and future (cf. Gambardella & McGahan, 2010; Nelson, 1993; Teece, 2007; Chesbrough & Rosenbloom, 2002). Firms often introduce BMI due to contextual changes (e.g., competition or

deregulation) or internal choices (e.g., to gain competitive advantages or to increase operating efficiency) (Wischnevsky et al., 2011), and always requires the special capabilities to manage ambiguity and uncertainty in the process.

Because business model innovation may complement innovation in products and services, methods of production, distribution or marketing, and markets (Zott & Amit, 2009), MSMEs could face big challenge to innovate business model in host markets in which the culture, institute, competitive situation are different from their home country. However, there are few prior researches focus on what challenges and barriers the MSME has faced in the innovation process in host country. There are some researches that identify challenges in big firms and new small firms. For example, some scholars argued that managers readily recognized the right business model, but its development was resisted due to its conflicts with the prevailing business model, or with the underlying configuration of assets that support that prevailing model (Amit & Zott, 2001). Others argued that, by contrast, it is far from clear to managers even what the right business model ought to be (Chesbrough & Rosenbloom, 2002).

Second, the literature on subsidiary entrepreneurship is very useful to this research. In the prior researches, subsidiary initiatives, defined as entrepreneurial activities that carried out by foreign subsidiaries outside the home country to tap into new business opportunities, are seen as an important prerequisite for subsidiaries to develop over time (Birkinshaw, 1997; Birkinshaw & Ridderstråle, 1999; Rugman & Verbeke, 2001; Doörnrenbacher & Geppert, 2010). According to the initiative process model, initiative process is divided into three phases (1) conceived through the identification of an opportunity, (2) gathers support and impetus as it is pushed through the socio-political organizational system and (3) is implemented. At any stage along the way the initiative can fail to gather the necessary support or resource commitments, and hence fail (Birkinshaw, 1997).

In order to expand internationally to exploit their assets in pursuit of growth and profitability in emerging markets by innovating business model,

MSMEs which are from developed countries need to build entrepreneurial capabilities (EC) which is defined as their capacity to recognize, conceive, create, and exploit opportunities for competitive advantage in selected foreign markets (Zahra et al, 2011). However, Compare to young born-global firms, mature and old MSMEs' existing management systems, processes and practices may create hurdles to build entrepreneurial capabilities in international markets. For example, some scholars found that the rigid operate processes and existing practices in headquarter in home country limited subsidiary entrepreneurship, innovation and learning in host country (Cao et al., 2013), and that organizational memory might become a barrier to absorbing the new knowledge gained in international markets. Hence, MSMEs need to build the capability of organizational unlearning which refers to the intentional discarding of practices, such as abandoning a certain recruitment procedure (Tsang & Zahra, 2008). The dynamics of forgetting and especially unlearning come into play because the firm's knowledge might be decaying, dated, or limited because of its local experiences (Zahra et al., 2011).

Third, resource-based view (RBV) which is a major theoretical framework that addresses the source of interfirm performance differences is related to this study, because RBV is one of the primary theories for understanding the origins of competitive advantage and superior firm performance (Hoopes et al., 2003; Bingham & Eisenhardt, 2008) . In prior main researches, resources are defined as the tangible assets (e.g., location, plant, equipment), intangible assets (e.g., patents, brands, technical knowledge), and organizational processes (e.g., product development, country entry, partnering) from which managers can develop value-creating strategies (Bingham & Eisenhardt, 2008). According to RBV, firms create competitive advantage when they develop resource that are valuable, rare, inimitable, and non-substitutable (VRIN) in a given market and exploit them in additional markets (Barney, 1986,1991; Amit & Schoemaker, 1993; Bingham & Eisenhardt, 2008).

However, on the one hand, it is well-established that SMEs differ from larger firms on the basis of available VRIN resources such as human capital and financial capital (Cooper et al., 1994; Forbes & Milliken, 1999), and on the

basis of having limited managerial expertise (Forbes & Milliken, 1999; Pissarides, 1999) to effectively manage changing internal and external environments (Ebben & Johnson, 2005; Chang & Hughes, 2012), and to implement their strategy such as innovating new business model (Bingham & Eisenhardt, 2008). On the other hand, MSMEs also face other big challenges to exploit and leverage VRIN resources which have been developed in home markets to innovate their business model and create competitive advantages in host country due to contextual changes.

In sum, although the extant literature can give us some useful insights, we fail to find the relevant theoretical guidance for our study on the drivers of MSMEs' subsidiary to facilitate business model innovation in emerging markets. For top-down ventures engaged by MSMEs, the contextual gaps or distances between the developed and emerging markets provide both unique opportunities and unique threats (Hansen et al., 2011). To understand the specific drivers of subsidiary to maximize the opportunities as well as minimize the threats, we need to develop new theoretical constructs and a process framework to fill in the gap in the literature.

METHOD

Building new theories from one or more cases is a research strategy to develop new theoretical constructs, propositions, and/or mid-range theories from case-based empirical evidence (Eisenhardt, 1989). Further, creative insights often arise from the juxtaposition of contradictory or paradoxical evidence from cases (Pettigrew, 1990). In this research, we adopted the method of comparative and longitudinal case study for theory-building due to the lack of related theories and the specific focus on process issues which case study is best at (Eisenhardt, 1989; Pettigrew, 1990).

A case study can involve either a single or multiple cases at various levels of analysis (Yin, 1994). Multiple cases are more effective than a single case because they enable collection of comparative data, and so are likely to yield more accurate and generalizable theory than a single case (Eisenhardt,

1991; Yin, 1994). Our research design is a multiple-case study that will allow the replication logic that treats a series of cases as a series of related laboratory experiments. Each case serves to confirm or disconfirm the inferences drawn from other cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 1994). For the purpose of theory-building, we selected cases in line with the theoretical sampling, which means the cases are selected because they are particularly suitable for illuminating and extending possible causal links among constructs (Eisenhardt & Graebner, 2007).

The research setting is SMEs that are based in the developed economics but with their operations in the emerging economies as top-down ventures. SMEs play a critical role in international business but the actual internationalization process of SMEs has attracted little scholarly attention, thus in an urgent need for research (Lamb et al., 2011). To fill the gap, we selected four SMEs based in Denmark with subsidiaries in China as their first market for top-down ventures (see Table 1 for more details). Their prior business models were designed for the developed markets, so they had to engage in BMI for their new top-down ventures in the emerging markets. In particular, they wanted to target the mid-end market segment in China as the most attractive given the potential size and fast growth (Tse et al., 2011). In this sense, the core of top-down venture lies in the target of mid-end market segment in the emerging markets. Due to the acute resource deficiency, SMEs tend to face the challenge of BMI bigger than that confronted by large MNEs. We focus on the process where SMEs' subsidiary facilitates BMI in emerging markets for top-down ventures. BMI performance is measured by both effectiveness and pace of BMI at the subsidiary level. Following Daft (1998) and Ciabuschi and colleague (2011), we refer to the *effectiveness* and *pace* as the extent and the lapse of time BMI has been implemented with the initial market success, see Table 1).

Table 1: Overview of the Four Cases

Firm	Industry	Age	Established Subsidiary in China(Year)	Interviews		Key outcomes and evidence
				TMT	Others	
MUP	BTB Industrial goods	+50 years	2005	11		<ul style="list-style-type: none"> •Developed new product •Launched new product
				2	9	
BAF	BTB Component	+50 years	2003	11		<ul style="list-style-type: none"> •Developed new product •Had the clear plan to Launch new product
				3	8	
TEV	BTB Equipment	+50 years	2006	6		<ul style="list-style-type: none"> •No significant milestone
				2	4	
RAE	BTB Special Equipment	+50 years	1994	8		<ul style="list-style-type: none"> •No significant milestone
				2	6	

Data Collection

We collected our case data in two phases. In the first phase (i.e., during May-August, 2011), we conducted a series of semi-structure interviews within each firm before the firm joined the project on BMI project sponsored by a private research group. The interviews were conducted with CEOs. The purpose of the initial interviews was to learn about the participating firm’s strategy for China and also seek the firm’s commitment on the BMI project. Interviewees were asked to describe their goals and plans of their BMI project, and also their challenges and barriers to their project. All of these four firms were committed to the special BMI for the Chinese mid-end markets across four key distinctive industries.

All the four firms began to engage in their initial phase of BMI in October, 2011 when the project was formally launched. Since then, we tracked the BMI progress in each firm. In the second phase, we collected two types of data: (1) regularly scheduled data, and (2) real-time data. To collect the regularly scheduled data, we relies on several different date sources, including: (1) quantitative and qualitative data from semi-structure interviews with CEOs and other informants in each quarter; (2) archival data, including innovation project

reports and other internal documents; (3) phone calls, e-mails and follow-up interviews. The main source of data is semi-structured interviews within each of the four firms. We had two types of informants. The first was the top managers who were defined as those individuals have directly control over the BMI project and overall corporate strategy (e.g., chairman, CEO, general manager, and vice presidents). The second was the team members of the BMI projects who directly managed the project. Having the informants from multiple hierarchical levels can greatly reduce the potential information bias (Bingham & Halebian, 2012; Golden, 1992; Miller et al., 1997).

Each interview was conducted by two investigators, with one investigator primarily responsible for the interview, another investigator responsible for taking notes. After the interview, we followed the “24- hour rule” that the detailed interview notes and impressions were completed within one day after the interview (Bourgeois & Eisenhardt, 1988; Yin, 1994). We also developed questionnaires to collect regularly scheduled data in each quarter, including such variables as BMI effectiveness, team performance, resource scarcity, decision-making process, and team leadership.

Finally, to collect the real-time data, we conducted field observations in each month to track the BMI process. The first-hand observations helped us to learn how specific progresses occurred over time. As some scholars argued that to understand how innovation actually occurred over time, it was necessary to supplement the regularly scheduled data collection with the intermittent real-time data (e.g., Van de Ven et al., 2000)

Data Analysis

Following the recommendations for multiple-case theory building (Eisenhardt, 1989; Eisenhardt & Graebner, 2007), we used both within-case and cross-case analyses with no priori hypotheses. We began by writing up each BMI story based on the interviews, surveys, and archival data we got for each case (Eisenhardt, 1989; Yin, 1994). Each BMI story provided the mapping of all relevant events in each BMI process. After the initial write-up of each BMI

story, the co-authors discussed each BMI story as a team. For any missing details, we conducted additional interviews via either e-mails or Skype phone calls. Finally, we synthesized all the data into one finished BMI story.

For the within-case analysis, we took each specific case (in the form of BMI story) as the unit of analysis. At this stage, we focused on identifying the unique pattern of BMI process so as to achieve the good knowledge about each BMI story. From the emerging patterns out the within-case analysis, we developed our tentative theoretical constructs. Second, using the replication logic, we conducted the cross-case analysis. We used both tables and charts to look for the emergence of shared themes across multiple cases (Eisenhardt, 1989). We iterated between theory and data to clarify our specific findings and theoretical arguments so as to refine our tentative theoretical constructs. Finally, these above activities helped yield our final theoretical framework.

DRIVERS TO FACILITATE BUSINESS MODEL INNOVATION

Our research focus on what drivers facilitate the business model innovation in multinational SME's subsidiary in emerging markets. Before describing our emergent framework, we describe how we measured business model innovation performance to identify high and low levels.

Following the qualitative method of Martin and Eisenhardt (2010), we measured the business model innovation performance as follows. First, we averaged the *informant ratings* of the innovation performance (made on a five-point Likert scale) for two informant types: team members and team sponsors. Second, we use *qualitative assessments* from informants. High performance was indicated by positive comments and low performance was indicated by negative comments. Third, we assessed the innovation project's *key outcomes* such as product prototype, new product, and financial outcomes. For example, BAF has high innovation performance because it has not only identified the new opportunities on Chinese middle markets, but also converted its new ideas to product prototype, developed and launched new products, and restructure its value chain. In contrast, low-performing project failed to achieve much in the

way of product, market, or financial results. For example, RAE has low performance because it has not achieved any new product prototype within the 15 months. Overall, the measures strongly confirmed the business model innovation performance differences among the four cases.

Table 2: Performance of Business model innovation in four cases

Firm	BMI performance	Team member rating	Team sponsor rating	Key outcomes
BAF	High	4	5	<ul style="list-style-type: none"> •Launched new product; •Developed new value proposition; •Built the primary business model of middle markets.
MUP	High	4	4	<ul style="list-style-type: none"> •Launched new product; •Developed New value proposition; •Built the primary business model of middle markets.
TEV	Low	3	3	•No key outcomes, just some ideas.
RAE	Low	2	2	•No key outcomes, just some ideas.

Table 2 summarizes our assessment of innovation performance and provides representative informant quotes. In next section, we compare the case evidences with the relevant literatures to develop a theoretical framework to explain these striking differences. Specifically, we identify *the initiative-taking motivation* and the *improvisation capability* of subsidiary as the two primary facilitators to positively influence business model innovation.

Initiative-taking and business model innovation

The dominant view of subsidiary entrepreneurship is that subsidiary managers need to take the initiative to response to the threats and opportunities to secure the subsidiary's performance (Birkinshaw et al., 2005), maximize their

subsidiary's value to the parent corporation and deepen their relationship with the headquarters (Delany, 2000; Gupta & Govindarajan 2000), and to enhance the subsidiary's technological and managerial capabilities (Sargent & Matthews, 2006). While these benefits provide ample incentives to engage in initiative taking, for MSMEs there are some considerable determinants in actual subsidiary initiative taking. For example, some scholars identified three sets of determinants that influence the development of subsidiary initiatives-corporate context, subsidiary context, and the local environment (Verbeke et al., 2007; Birkinshaw & Ridderstråle, 1999).

In keeping with this view, we observed how the four Danish MSMEs' subsidiaries identified and implemented the new opportunities, and developed their competitive advantages on the mid-end markets in China, and found that initiative-taking is the key driver to facilitate the business model innovation. Based on the initiative process theory (Birkinshaw, 2000), we measured subsidiary initiative-taking by using subsidiary initiative behaviors/activities and key outcomes in different initiative phases, and rated the subsidiary initiative-taking as high and low levels. At the same time, we compared the four cases and analysed the relationship between initiative-taking and the performance of business model innovation. Table 3 summarizes our assessment of initiative-taking motivation and provides representative informant quotes.

Table 3: Initiative-taking activities, resource, and the performance of Business model innovation

Firms and BMI performance	Description of Opportunity Identification	Description of Support and Resource	Description of Implement	Initiative-taking motivation Rating	Subsidiary sources	Representative Informant Quotes
BAF, High	<ul style="list-style-type: none"> •Analyse actively internal and external environments •Learn actively from customers. •Identify actively new opportunities. 	<ul style="list-style-type: none"> •Risk-taking •Get high commitment from HQ 	<ul style="list-style-type: none"> •Take action quickly without waiting for HQ •Conduct experiments •Develop and launch new product for middle market. 	High	<ul style="list-style-type: none"> •Flexible HR process •HR resource slack 	<p><i>"...entrepreneurial spirit is the most important";</i> <i>"We have no time to wait for HQ. The change is so fast";</i> <i>"Taking action actively is very important for new BM";</i> <i>"...complaining is not useful"</i></p>

MUP, High	<ul style="list-style-type: none"> •Identify actively new opportunities. •Analyse actively competitors. •Develop actively new ideas. 	<ul style="list-style-type: none"> •Risk-taking •Get high commitment from general manager 	<ul style="list-style-type: none"> •Take action without waiting for HQ •Conduct experiments •Develop and launch new product for middle market. 	High	<ul style="list-style-type: none"> •Flexible HR process •HR resource slack 	<p><i>"...everything changes fast in China. You have to take action quickly. No time to wait for HQ";</i></p> <p><i>"Entrepreneurship is very important for doing business";</i></p> <p><i>"...we have never complained about HQ. it is not useful for BM";</i></p> <p><i>"...action, action, and action quickly"</i></p>
TEV, Low	<ul style="list-style-type: none"> •Identify actively new opportunities on middle markets 	<ul style="list-style-type: none"> •Risk-averse •Compliance for the HQ 	No	Low	<ul style="list-style-type: none"> •Rigid HR process •lack of HR resource 	<p><i>"We do not have the common goal on the project";</i></p> <p><i>"HQ does not trust me";</i></p> <p><i>"...the only one thing is waiting";</i></p>
RAE, Low	<ul style="list-style-type: none"> •Identify actively new opportunities on middle markets. 	<ul style="list-style-type: none"> •Risk-averse •Compliance and waiting passively for the headquarter •Complain about HQ 	No	Moderate	<ul style="list-style-type: none"> •Rigid HR process •Lack of HR resource 	<p><i>"I have to wait because I have no power and resource";</i></p> <p><i>"The HQ does not understand Chinese markets";</i></p> <p><i>"...I have new ideas, but no opportunity to implement it";</i></p> <p><i>"...HQ tries to control everything".</i></p>

In the four cases, BAF and MUP have high initiative-taking motivation and obtained significant performance. All of them have not only identified the new opportunities on Chinese middle markets, but also converted their new ideas to product prototype, developed and launched new products, and restructure its value chain. Based on these initiative activities, BAF and MUP have built its primary new business model for Chinese middle markets in which they redefined their customer segments compared to old business model and value propositions for new customers.

When we interviewed BAF's top managers at headquarter and general manager and team members at subsidiary, and asked them what are the main

factors to drive them to push the business model innovation procedure in China, all of them have mentioned the three key words and concepts: entrepreneurial spirits, entrepreneurial orientation, and entrepreneurial initiative. As the team leader said,

“The competition in China is fierce. Entrepreneurial spirit is a key factor to design our new business model successfully because BAF is a small international firm. We do not have enough money and resource compare to those big multinational companies.”

In MUP, the team leader has the same feeling as BAF’s leader. He also agreed that initiative-taking is the one important determinant for business model innovation. Compare to customers on high-end markets, customers on middle-markets need good quality and lost price products. Due to MUP’s prior high price products only focused on high-end markets, it has faced big challenges since it began to develop new products for middle markets. In the process of designing new business model, initiative-taking is one driver. As the team leader mentioned,

“It is not easy to design new product for middle markets because we have no experience on this area. In fact, we need to try and try. In the process, initiative-taking is very important factor because we have no time to wait. Marketing situation changes fast in China.”

Based on our observation, MUP’s first new product which is special for Chinese middle-market was the result of initiative-taking of sales people. In the first quarter of 2011, two sales people visited their customers, got an idea from customers, and identified actively new opportunity for middle markets. In fact, at that time, nobody knew how to reduce the product cost and keep the product good enough quality to fit customers’ needs. Despite they lack of experience and resources, employees from sales and RD department worked together and took actively action to redesign their products, to conduct experiment. Almost 10 months later, MUP developed product prototype. By the end of April of 2013, MUP has got a contract with one Chinese big company and sold more than 30 product units.

Compare to the strong initiative-taking behavior of the BAF and MUP, the two cases of TEV and RAE have showed weak initiatives to “innovate business model” and low performance of business model innovation. The common characteristics of business model innovation in the two cases are waiting, complaining, compliance, and risk-averse. Team managers both at TEV and RAE subsidiary complained that they have no power, no resource to try their new ideas. For example, the team manager from RAE said,

“I have many new ideas about Chinese middle markets, but, HQ tries to control everything. I have no enough power and resource to try. The one thing is waiting. I have no choice.”

Based on our data, in the first stage of initiative, team members of both RAE and TEV could identify actively new opportunities for middle markets, and they also had some good ideas for new business model. But, they are too dependent on headquarters and lack of initiative-taking. They took passively actions of compliance and waiting for the head office’s decision, and did not take key activities in the last two stages of getting support and commitment and implementing the opportunity.

In sum, we found that initiative-taking is a key facilitator for business model innovation. Why is the initiative-taking very important to business model innovation at MSMEs? In other words, why can the initiative-taking motivation facilitate the business model innovation? The first reason is that initiative-taking is very important if the subsidiary lack of resource. For example, related findings indicate that entrepreneurial initiatives are particularly important when an MNC subsidiary lacks of manufacturing competence or experiential knowledge in the foreign market (Lee and Chen, 2003, see Jones et al, review, 2011). For MSMEs, it is well-established that they differ from larger MNEs on the basis of available resources such as human capital and financial capital, and on the basis of having limited international expertise to effectively manage changing internal and external environments (Chang & Hughes, 2012).

The second reason is that the subsidiary needs to get headquarters’ attention and increase their influence through taking initiatives. Based on these

activities, subsidiary can get more resources, knowledge, and other support from headquarter. For example, subsidiary initiatives have a direct effect on subsidiary autonomy (Ambos et al., 2010).

The third reason is that, for most firms, business model innovation rarely happens automatically. It always requires the special capabilities to manage ambiguity and uncertainty in the process. More specifically, BM design process has five phases: mobilize, understand, design, implement, and manage (Osterwalder & Pigneur, 2010). Building new business model includes a set of key activities. Across the entire process, Zott and Amit (2010) identified two sets of salient parameters for BMI are *design elements* (e.g., content, structure and governance that describe the architecture of BMI) and *design themes* (e.g., novelty, lock-in, complementarities, and efficiency that describe the sources of BMI). No doubt the MSMEs could face different big challenges in different phases of business model innovation. In the uncertain environment, the entrepreneurial spirit or initiative-taking of managers is one important determinant for achieving high performance. Overall, these observations lead to our proposition.

Proposition 1: For SMEs, the high initiative-taking motivation of subsidiary will accelerate business model innovation for top-down SMEs in the host emerging market.

Improvisation capability and business model innovation

In the prior research, improvisation is defined as the degree to which composition and execution converge in time (Moorman & Miner, 1998). Based on this definition, the more proximate the design and implementation of an activity in time, the more that activity is improvisational. Some scholars have found that improvisation plays an important role in innovation processes such as new product development (Eisenhardt & Tabrizi, 1995; Kamoche & Cunha, 2001), and improvisation always leads to rapid adaptive processes, positive outcomes and better performance (Vera & Crossan, 2005).

For MSMEs, developing new business model includes a set of innovational activities. Based on the prior researches, we argue that the subsidiary improvisation capability is the one key driver for business model innovation. In this research, we observed how the four Danish MSMEs' subsidiaries improvisation capability facilitates the business model innovation. Based on the organizational improvisation theory (Moorman & Miner, 1998), improvisation introduces the notion that the composition and execution of plans occur simultaneously. The closer the time gap between planning and implementation, the more an action can be considered to be improvisational (Poolton & Ismail, 1999). We measured subsidiary improvisation by using subsidiary actions and the timing of milestones occurred in different initiative phases, and rated the subsidiary improvisation capability as high and low levels. At the same time, we compared the four cases and analyzed the relationship between improvisation capability and the performance of business model innovation. Table 4 summarizes our assessment of improvisation capability and provides representative informant quotes.

Table 4: Improvisation Capability and the performance of Business model innovation

Firms and BMI performance	Description of Opportunity Identification	Timing and Milestones in Implement stage	Improvisation Capability Rating	Representative Informant Quotes
BAF, High	•New fabric for middle markets	•Product Prototype: 3 months •Zero Series product: 5 months •Final product: 5 months	High	<i>"...the situations change fast. We need real data and improvisation to adjust our solutions"; "...improvisation is central capabilities for us"; "...improvisation is a key factor to adjust situation";</i>
MUP, High	•New CC pump for middle markets	•Product Prototype: 2 months •Final product: 5 months •Launch product: 1 month	High	<i>"Fast decision needs improvisation...."; "...based on real time data, we could adjust our solutions quickly..."; "...improvisation capability is very important for innovation";</i>
TEV, Low	•No special idea for middle markets	•No special product for middle markets	Low	<i>"We work on business model innovation slowly.... One main reason is we lack of autonomy</i>

				<i>to test and try</i> "; "We lack of real data..."; "...the gap between planning and actions is big"
RAE, Low	•Targeting one new market segments	•No special product for middle markets	Low	"...intuition and flexible are very important because we have no prior experiences in this new area"; "I have no autonomy to test my idea..."; "...how to fit the gap between planning and implementation is big challenge"; "...no choice to develop improvisation";

In the four cases, BAF and MUP have high improvisation capability and obtained significant performance. We record the two cases' milestones and their timing in the process of business model innovation. BAF, for example, spent 3 months on converting new ideas to product prototype, 5 months on Zero Series product development, and 3 months on final product. In other words, within 11 months, BAF developed and launched its new final products for Chinese middle markets. MUP has also the fast process of new products development. It spent 2 months on converting new idea to product prototype, and 5 months on final product. Within 8 months, MUP launched its new product for Chinese middle markets.

The common characteristics of BAF and MUP are fast pace and quick adaptation in each stage of product development. At the same time, they have carried out a large number of tests at every stage. Based on our observation, extensive testing accelerates the two cases' understanding and reconceptualization of the products through trial and error learning. The team members made fast and flexible decisions to adjust their solutions based on their real-time experiences from the tests. As one team member in BAF said,

"...the situations change fast. They are not predictable. So we cannot plan and organize our actions to rely on prior routines from HQ. We need real data and improvisation to adjust our solutions. Fast pace and quick adaptations are central, competitive capabilities for us."

By confronting real data about actual results, such as some aspect of the design that does not work or works differently than anticipated, the product teams are firmly forced out of faulty preconceptions. The prior study found that testing increased development speed because it builds developers' confidence. When product teams test particular designs, the development process becomes more concrete and believable (Eisenhardt & Tabrizi, 1995). We found that developers gained confidence because they have proactively engaged in a concrete action in unpredictable process. As one manager in MUP mentioned,

“The setting is turbulent and uncertain. We need confidence to overcome this challenge. The business model innovation is unpredictable process. Nobody knows what is right, what is wrong. In fact, we lack of information for the future. So, we need special actions to test our ideas.”

Based on our data, one key insight is that the business model innovation is a process in which developers are likely to update and improve their thinking frequently throughout the design process in response to concrete results. In this process, the capability of improvisation is very important for developers to make decision and to adjust their solutions quickly, and accelerates the process.

In contrast, we did not find significant milestones in the business model innovation in TEV and RAE. For example, although the team manager at TEV tried to identify new opportunities on Chinese middle markets, TEV has no clear ideas and solutions for designing new business model because managers at HQ are more inclined to use the original products and business model which developed in home country. Concerning the new business model, the general manager of RAE subsidiary has one primary solutions to target one new market segments, but the HQ are not willing to change their prior business model, not open to development of localized products that are very relevant in China.

The common characteristics in the two subsidiaries are “wait and see” because they do not have autonomy and flexibility to conduct test, and to develop their improvisation. As one team member from RAE said,

“I believe that intuition and flexible are very important because we have no prior experiences in this new area. They can help me to cope with an unclear

setting. But, now, I face a big challenge that HQ asked me to submit report based on data. If I have no chance to try, how I can get data.”

The team manager at TEV has the same feeling,

“Designing new business model in China is very difficult. My feeling is that HQ people are resisting this, as they may lose decision power and control. HQ is not willing to let China setup be more autonomous. They want to control China subsidiary and its strategy.”

Based on our data, one key observation is that people often procrastinate in the face of uncertainty in unpredictable situations. The two subsidiaries of TEV and RAE have wasted lots of time on waiting for decision from HQ. There is a big gap between planning and implementation. That means the improvisation capability is weak. They lack of resource and autonomy to conduct test because HQ reluctant to see their failures. In fact, small, frequent failures are very motivating and create particularly rapid learning because they capture people’s attention but yet are not so large as to raise denial or blocking defenses (Sitkin, 1992). Due to lack of prior experiences and routines, they are not confident enough to act in highly uncertain situations.

In sum, we found that improvisation capability is a key facilitator for business model innovation. Why is improvisation capability very important to business model innovation at MSMEs? In other words, why can the improvisation capability facilitate the business model innovation? The first reason is that improvisation capability plays very important role in capturing attractive, fleeting market *opportunities* for creating new business model and profits sooner, faster and more effectively than competitors (Eisenhardt & Martin, 2000). Although there are huge opportunities in emerging markets, the competition is very fierce. For SMEs who are from developed countries, they need to develop strong improvisation capability to compete with local competitors in emerging market which are characterized by abundant flows of unpredictable, often fast-moving and ambiguous opportunities of unclear durations (Davis et al., 2007).

The second reason is that improvisation capability enables SMEs *fast adaptation* in business model innovation. The situations in emerging markets are highly uncertain, and the fast adaptation is a pivotal strategic competence for SMEs to design new business model. The people involved in the business model innovation rely on highly experiential and real-time information in the context of uncertain to achieve fast pace. Some researchers have showed that successful business model innovation is a continuous process that involves an initial experiment followed by continuous reassessment and modification to suit changing conditions (Sosna et al., 2010). In other words, successful business model innovations were designed to be adaptable (Giesen et al., 2010). That means SMEs can achieve fast pace of business model innovation by relying on iterative experiences, flexibility, and improvisation (Eisenhardt & Tabrizi, 1995). Overall, these observations lead to our proposition.

Proposition 2: For SMEs, the high improvisation capability of subsidiary will accelerate business model innovation for top-down SMEs in the host emerging market.

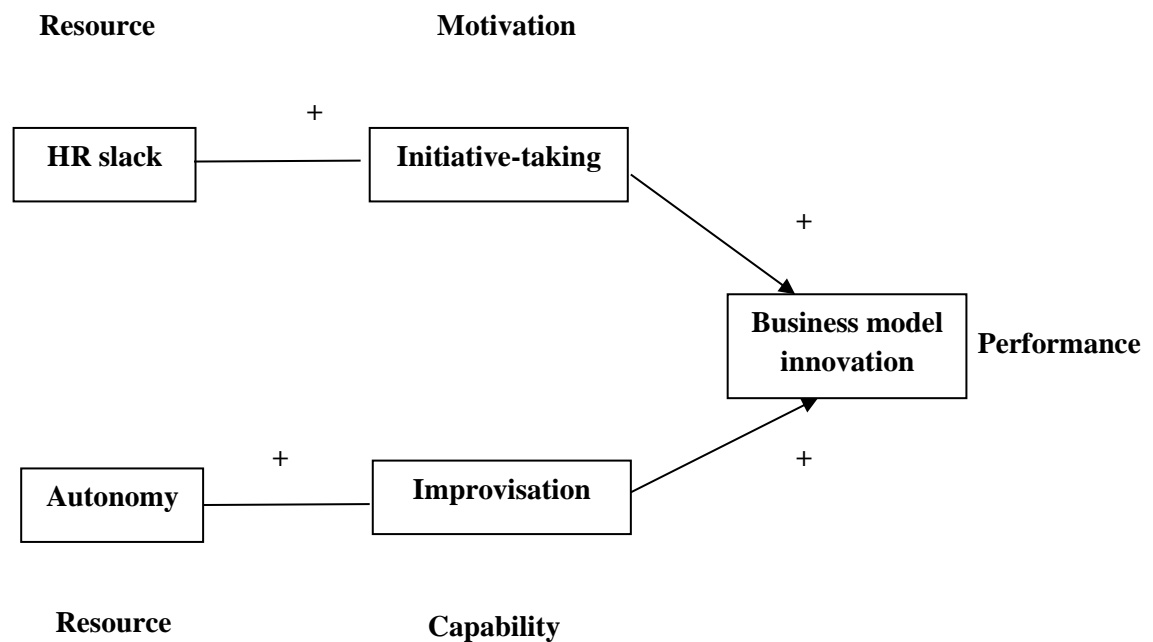
DISCUSSION AND CONCLUSION

Business model innovation plays a very important role in developing competitive advantage when SMEs from developed country enter into emerging markets because of the large contextual distances or gaps between the emerging and developed economies (Cuervo-Cazurra, 2012; Ghemawat, 2001). But, there is little research focus on the facilitators to accelerate the business model innovation, especially what facilitators in subsidiary because the foreign subsidiaries play important role in shaping the overall strategy of the parent company. To fill this gap, the primary contribution of this study is a novel process framework based on resource-based view (RBV).

A Process Framework for subsidiary facilitators on business model innovation

A primary contribution of this study is an emergent process framework for subsidiary to facilitate BMI of SMEs. Figure 1 represents this framework with three sets of interrelated constructs.

Figure 1: A Facilitator Framework on Subsidiary’s Business Model Innovation



First, our framework shows the initiative-taking will facilitate business model innovation. Some studies have shown that though taking initiative subsidiary may enhance its technological and managerial capabilities (Sargent & Matthews, 2006), maximize its value to the parent corporation and deepen its relationship with the headquarters (Delany, 2000; Gupta & Govindarajan 2000). Our finding is that subsidiary managers who have high initiative-taking motivation can response to the threats and opportunities to secure the subsidiary’s innovation performance.

Business model innovation of subsidiary includes a series of activities, typically starts with the identification of new ideas and opportunities in local markets. In this process, subsidiary managers take on important responsibilities, such as interacting with other actors in the local environment, building unique capabilities, and negotiating with the headquarters on the commitment of resources to these opportunities (Do"rrenba"cher & Geppert, 2010). All the responsibilities are achieved, at least in part, through the entrepreneurial efforts of subsidiary managers (Birkinshaw et al., 2005).

The next important question is what factors influence the extent of subsidiary initiative-taking? In prior research, there are some considerable determinants in actual subsidiary initiative taking. For example, some scholars argued that initiative-taking is influenced by the way headquarters govern their subsidiaries, by the different resources subsidiaries can draw on, and by some location and industry specific contingencies (Do"rrenba"cher & Geppert, 2009 ; Verbeke et al., 2007; Birkinshaw & Ridderstråle,2000).

In our research, we found the HR slack is the key factor to influence the extent of subsidiary initiative-taking. Slack is central to the behavioural theory of firm and can be used for experimentation (Cyert & March, 1963).Organizational slack refers to 'the pool of resources in an organization that is in excess of the minimum necessary to product a given level of organizational output' (Nohira & Gulati, 1996). Accordingly HR slack is defined as the common availability of human resources' effort and time to be deployed for purposes other than planned production.

According to resource-based view, organizational processes, such as human resource management, are very important resources from which managers can develop value-creating strategies (Bingham & Eisenhardt, 2008). In this research, first, we found that high initiative-taking subsidiaries, such as BAF and MUP, have more flexible HR process than low initiative-taking subsidiaries, such as TEV and RAE. The flexible human resources policies and processes encourage the entrepreneurial spirit and effort of subsidiary managers. Second, for managers, time is rare, valuable, and important

resource. How much time on the business model innovation project represents manager's priorities in their work and commitment on the initiative. The team members at high initiative-taking subsidiaries spend much more time than those at low initiative-taking subsidiaries. For example, team members of BAF have spent average 14 hours per week on the business model innovation project, in contrast, team members of RAE only spent 4 hours per week on their business model project. As the manager at BAF complained, "I have no much more time on the new project."

For SMEs from developed countries, designing the new business model is a big challenge because the environment in emerging markets is uncertainty and unpredictable. As Weick (1993) argued that it is very important to create motivate system because the uncertainty can create paralyzing anxiety about the future. We argue that HR process and HR slack are the two key motivate system to build subsidiary managers' confidence.

Second, our framework shows improvisation capability will facilitate business model innovation. In prior researches, improvisation has substantial implications for a number of organizational phenomena, ranging from teamwork and creativity to product innovation and organizational adaptation and renewal (Kamoche et al., 2003). This paper explores how improvisation to facilitate business model innovation as a crucial adaptive process.

The business model innovation is a very uncertain path through foggy and shifting markets and technologies and redefining customers and value propositions. We argue that the key to facilitate business model innovation and performance is rapidly building improvisation capability in order to adjust the solutions to fit uncertain environments. Our finding is consistent with the existing research. For example, some scholars argued that when uncertainty reigns, people adjust to the lack of information by being more experimental, flexible, and even improvisational (Scott, 1987; Eisenhardt & Tabrizi, 1995)

The next interesting and important question is what factors influence the extent of subsidiary improvisation capability? In this study, we found that autonomy has been shown to be an important influence on subsidiary

improvisation capability. Autonomy refers to the freedom or independence of a subsidiary which enables it to take certain decisions on its own behalf (Yong & Tavares, 2004).

According to resource-based view, autonomy is one kind of important resource for SMEs subsidiary to build new business model in emerging markets. In dynamic environments centralization of HQ is problematic because such dictatorial action often creates isolation and rigidity in subsidiary (Staw et al., 1981). Some researchers have shown headquarter plays critical role in the subsidiary initiative process (Ambos et al., 2010; Cao et al., 2013). Autonomy has been shown to be an important influence on subsidiary local initiative and on innovation creation in the subsidiary (Birkinshaw, 1996, 1997; Ghoshal & Bartlett, 1988). In our cases, headquarters of BAF and MUP gave the high autonomy to their subsidiaries. In contrast, headquarters of TEV and RAE centralized all main power in their own hands.

Autonomy is an important determinant for subsidiary improvisation. Improvisation is the degree to which composition and execution converge in time. The closer the time gap between planning and implementation, the more an action can be considered to be improvisational (Moorman & Miner, 1998; Poolton & Ismail, 1999). Without the high improvisation, the subsidiary cannot develop strong improvisation capability to fit the gap between planning and implementation.

In sum, our framework explore why some subsidiaries can innovate their business models quickly in host country, whereas others cannot. Our framework has some contribution on prior literatures. The first contribution is related to literature of business model innovation. We identify two new key facilitators for business model innovation and explore the mechanism in which how initiative-taking and improvisation influence business model innovation. We also identify the determinants of the two facilitators and explore the mechanism in which how HR slack and autonomy influence the facilitators. These findings link to the prior literatures on business model innovation which focus on the challenges of

designing new business model (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002).

The second contribution is related to the prior studies of subsidiary entrepreneurship. In prior research, Birkinshaw and Ridderstråle (1999) termed the forces that resist subsidiary initiatives as “the corporate immune system” which includes *visible manifestations* and *interpreted predispositions*. We identify some new forces that may resist subsidiary initiative. Our findings explore the “immune system” more in detail. We found that HQ resource, autonomy, improvisation capability and initiative-taking motivation are four important forces to influence the subsidiary business model innovation.

We offer the third contribution to the international strategic entrepreneurship (ISE) theory which integrates three fields of research at the intersections between international business, entrepreneurship, and strategic management. Our findings address a primary puzzle in the literature on ISM by developing the framework in which we explain how and why some SMEs from developed countries can innovate their business model in emerging markets rapidly whereas others cannot.

Limitations and Conclusion

Similar to most studies, this study has limitations. For example, using the longitudinal data of more than one year, we only followed the initial stage of BMI among the four sampled SMEs from Denmark. Our research is the first step in addressing the empirical challenge of opening the “black box” of BMI process for top-down ventures. Further, this study focuses heavily on the perspective of subsidiary rather than the perspective of the relationship between headquarter and subsidiary. Our future research projects will address the above limitations.

By focusing on how SMEs’ subsidiary facilitates business model innovation in emerging markets for top-down ventures, this study has the potential contributions to the literatures of business model, international strategic entrepreneurship, resource-based view, and subsidiary entrepreneurship. Based upon the rich field data, our primary contribution is a

novel process framework with three sets of core constructs with their causal links. In particular, this study has sought to fill the gap in the literature concerning the issue of BMI for top-down ventures engaged by SMEs.

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