

## **“Embedded business model innovation (EBMI) in the European automotive industry:**

# **Business model innovation as dynamic capabilities within a moderately dynamic industry**

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## **ABSTRACT**

Throughout history, from developments in society to the modern history of companies and corporations, the space of innovation has prioritised technical-technological innovation (TTI). The focus of this research is different. It focuses on business model innovation (BMI). Through a quantitative survey approach to BMI in the European automotive industry, the research joins scholarly and practitioner conversations that are increasingly recognising, exploring and coming to more robust insights into the value derived from attending to innovation on the models upon which businesses operate, rather than the innovation of the products and services they offer. With conceptual and theoretical underpinnings from the resource-based view of the firm, BMI is here explored from the lens of dynamic capabilities and descriptive theories that have supported the development of capability maturity models. The results of this research speak to the value derived through BMI in conjunction with TTI as well as the value of BMI irrespective of TTI.

The traditional innovation gaze has been centred on the related structures, systems and processes for assuring a continual flow of TTI (that has been held up as catalysts for major changes in society and organizations and consequently the source of changing business models). This study, focused on BMI and its related BMI enabling capabilities and processes, investigates and describes how BMI exists not only to support, enable, realize and enrich, i.e. to “follow” and “escort” TTI, but is itself a set of resources and capabilities for generating new value. Moreover, BMI does not only play a supporting role but also leads, playing a solo role in efficiently integrating and upgrading existing and encouraging new TTI.

While research into BMI has been growing, there is still a dearth of empirical studies, particularly those taking a systemic look at organizational capabilities for BMI - what is referred to here as embedded business model innovation (EBMI). As such, the research presented provides significant empirically grounded, theoretically driven results that shed light on how companies approach BMI and the capabilities and processes they build to continuously do them.

The primary data for this study came from a quantitative survey approach involving informants from 145 companies in the European automotive industry. The study is centered on dynamic BMI capabilities in companies exploring their relation to TTI capabilities. Furthermore, it develops a set of tools enabling companies to progress quickly towards systematic continual BMI and finally openly challenges the dominant wisdom focused on TTI. The data provides insights into how BMI, in comparison with TTI, delivers better results both from revenue, market shares and financial viewpoints. The research provides a window into the current distribution of BMI capabilities in companies and investigates the roles of strategy alongside organization, human resource, reward

system and processes. Ultimately, the presence and relative alignment of such capabilities is found to be core to the level of a company's BMI performance. Overall, the findings focus on the relative "embeddedness" of BMI within companies and how this relates to company growth and performance over time.

To clearly represent and articulate these findings, a business model innovation/technical-technological innovation capability matrix (BMI/TTI Capability Matrix) is developed and the relations between the two are explained. Complimentary to the matrix is a five-stage model of the relative maturity (embeddedness) of BMI capabilities within a company. This five-stage maturity framework - EBMI Capability Framework (embedded business model innovation capability framework) of embedded BMI capabilities and processes (pre-phase, start-up, strategic commitment, pre-integration, integration) provides fresh insights, both theoretically and practically, in the space of innovating through business models.

The BMI/TTI Capability Matrix and EBMI Capability Framework integrate theoretical insights around BMI, dynamic capabilities and descriptive theories supporting the development of capability maturity models, bringing into relief relations between BMI and TTI. They each separately and both together represent an important bridge from the existing theories on mainly random BMI to the future of fully integrated, embedded, systematic, continual BMI and an important tool for practitioners to adapt their companies to the ever faster changing environments and to proactively provoke productive changes within them. Moreover, the results challenge the dominant logic that the combination and cross-link/cross-integration of TTI and BMI is the best option for achieving superior company growth and performance. The results indicate that a focus solely on innovating business models yields the highest enhancement of growth and performance.