Proceeding
Vol. 5, 2012
5th International Seminar on Industrial Engineering & Management (5th ISIEM)

"Innovation in technology, information, and management concerning worldwide economic challenge"

February 14-16, 2012
Aston Hotel, Manado, Indonesia

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ENCOURAGING BUSINESS MODEL INNOVATION TO IMPROVE FIRM’S COMPETITIVENESS THROUGH DEUTERO-LEARNING AND ADHOCRACY CULTURE

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ABSTRACT
According to the formation of ASEAN Economy Community in 2015, Indonesian’s firms have some opportunities to explore new market and enhance their local competitiveness. But Indonesian’s firms also have to face some threats such as new competitors and new competitive landscape. Business model innovation could help firms to enhance their competitiveness but firms have some obstacles to implement it. The practice of deutero-learning will encourage organization member to generate new knowledge while the adhocracy culture will encourage them to experiment. So, the practice of deutero-learning and adhocracy culture will encourage firm to innovate their business model to improve their competitiveness.
Key words: Business Model Innovation, Organizational Learning, Organizational Culture.

1. INTRODUCTION
The formation of ASEAN Economy Community in 2015 would bring some new opportunities and threats for Indonesian’s firms. Indonesian’s firms have the opportunity to explore wider export markets, meanwhile they also have to face the threat of new entrances/competitors as well as new competitive landscape. Therefore, firms need to improve their competitive advantage. The competitive advantage is a tool for the firms to get sustainable superior performance (Powell, 2001).

In the new competitive landscape, firms need strategy innovation such as developing their business model to create new values for customer so that the competition become irrelevant (Hamel, 2001). Chesbrough (2007) said that to have innovation in business model is more relevant than to have innovation in term of investment in high technology or in term of human resource. Business model innovation is needed in order to ascertain firm’s profiting from any value creation efforts that they make (Chesbrough, 2010). Moreover, business model innovation could be a source of competitive advantage (Teece, 2010; Sosna et al., 2010).

Previous research found that firms face many obstacles to innovate their business model (Chesbrough, 2010). This was caused by few reasons. Firms were trapped by the success of existing business model that make them reluctant to develop the existing business model further (Chesbrough, 2007; 2010). In additional, the limited view of functional managers to see the business as a whole impeded their ability to innovate the business model. Consequently, business model innovation relies heavily on the firm’s top leaders (Chesbrough, 2007; 2010).

Based on the above discussion, it can be concluded that in order to gain a competitive advantage, firms need to innovate the business model. But, firms also have some obstacles to innovate their business model. Then, this paper will explain that the deutero learning and adhocracy culture can help firm to innovate their business model.

2. INNOVATION, BUSINESS MODEL, BUSINESS MODEL INNOVATION, AND COMPETITIVE ADVANTAGE

2.1. Innovation
Innovation, in the study of economy, is contributed to a growing economy because it requires learning (Lundvall, 1998). Innovation is also often found in
Entrepreneurship in which innovation is the heart and mindset of entrepreneurship (Drucker, 2002; Lumpkin and Dess, 1996). Here, innovation is a specific function of entrepreneur by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth (Drucker, 2002). By innovation, firm can survives in future competition (Huber, 1994; Lowendahl and Revang, 1998).

Innovation is an economic and social success because of the introduction of new ways or new combination of ordinary ways in the transformation of inputs into outputs that creates significant change in the relation of use value and price that are offered to consumers and/or users, communities, societies, environment (Fontana, 2009). Innovation is an effort to create economic value for consumer by enhancing positive difference between customer perceived value and economic costs incurred by the firm. Innovation is the ability of a firm to create economic value bigger than marginal competitors in product market then it means that the firm has a competitive advantage.

Moreover, in order to enhance firm’s capacity to innovate, managers should pay attention and look at the innovation value chain. Innovation value chain is a process to transform ideas into commercial output as an integrated flow (Hansen and Birkinshaw, 2007). It consists of three stages. First stage is idea generation in which ideas could be created in a unit, across units in a firm, or outside of the firm. Chesbrough (2003) said that on a landscape of abundant knowledge, firm should implement open innovation. In open innovation, firm explore ideas and knowledge from outside of the firm and combine it with internally research and development to create new value and new opportunity. Second stage is idea conversion. At this stage, firm make the selection of ideas that have been collected, which will be financed and created to materialize in a product or a particular practice. Third stage is idea diffusion. At this stage, firm distributes the product or particular practices that are made.

In order to guarantee that innovation is making rents, McGrath et al., (1996) suggested four antecedents. First, causal understanding is needed. Second, a proficient innovation team is needed. Third, the ability to create new competences is needed. Forth, the creation of competitive advantage in term of efficiencies and values is needed. So, firm’s innovation effort will yield rents when the firm has idiosyncratic causal understanding and a proficient innovation team. These factors will encourage the creation of idiosyncratic insight. Then, the creation of idiosyncratic insight will generate competitive advantage and rents.

2.2. Business Model

Attention to the study of business model, especially in term of components of the business model began to grow from the last decade, and initially was provoked by the phenomenon of e-commerce industry (Hedman and Kalling, 2003; Shafer et al., 2005). Business model has an important role in innovation process (Doganova and Eyquem-Renault, 2009). Business model is a realization of basic logic and strategic choices that underlie value creation and value capture in a value network (Shafer et al., 2005). Business model also reflects the company’s assumption about what customers want, how the presentation, how can companies organize themselves to meet customer’s need, and get the payment that will generate profits for the company (Afuah, 2004; Teece, 2010).

In essence, a business model has two main functions that are value creation and value capture (Chesbrough, 2007). Value creation describes the process of value creation from the supply of raw materials, the manufacture of products or services to the satisfaction of the final consumer. Value capture explains how a company will earn a profit from some portion of its activities that are done for the sake of the survival of the company. There are seven other function of a business model (Chesbrough, 2010), (1) articulate value proposition, (2) identify a market segment, (3) define the structure of value chain that are needed by the firm to create and distribute the offering, (4) determine the revenue generation mechanism, (5) estimate the cost structure and the potential profit, (6) describe the firm’s
position in the value network, (7) formulate the competitive strategy.

2.3. Business Model Innovation

Firms have to innovate their business model because new business models rarely work the first time around (Sosna et al., 2010) due to some difficulties that decision maker faced when making analysis to design and implementing business model. When designing a business model, it’s difficult to identify market needs accurately, because manager face uncertainty and difficulties to estimate fast developing market condition. In this condition they shackled by their preowned environment mental model that cause bounded rationality. At the implementation step, new business models require organizational realignment, requiring decision makers to mobilize scarce resources, develop unique competencies and adjust organizational structures to promote learning, change and adaptation (Sosna, et al., 2010).

2.4. Business Model Innovation and Competitive Advantage

From the explanation about innovation, business model and business model innovation, a proposition can be generated.

Proposition 1: Business model innovation will generate firm’s competitive Advantage.

The proposition based on understanding that innovation is an effort to get positive difference between customer perceived value and product or service price (Fontana, 2009). When customer perceived value exceeding the price that customer must pay, willingness to pay will increase. When customer willingness to pay increase, product or service demand will increase thus firm can increase sales. In dynamic and ever changing market context, effort to create positive difference between customer perceived value and product or service price must continuously made.

Moreover, business model innovation means make adjustment in business model component until positive difference between customer perceived value and product or service price is achieved (Blackstone and Fuhr, 2007; Sosna, et al., 2010). Business model innovation is designed to exploit existing market segment by offering more values and to explore new market segment. The combination between exploitation and exploration is required to raise firm’s competitiveness for survival and growth (Gibson and Birkinshaw, 2004; O’Reilly III and Tushman, 2004).

Business model innovation requires business model to change. Change is important issue that often failed to implement. (Kasali, 2007; Lick, 2006). To support change, learning (Lick, 2006) and supporting organizational culture (Philip and McKeown, 2004; Sarros et al., 2008) is needed. For this reason, author will explain concept about organizational learning and organizational culture.

2.5. Organizational Learning and Business Model Innovation

Learning has been a well-known and intensively studied topic in psychology for many years, especially at individual level of analysis (Rebelo and Gomes, 2008). Then, it is diverged by adding organizational context to explore how individual learning in an organization (Huczynski and Buchanan, 1991; Luthans,1989; Weiss, 1990; Kolb, 1984). Moreover, Argyris and Schon (1978) introduce learning concept with organization level as unit of analysis through the concept of organizational learning. Hereby how all individual in organization make collective learning have greater value than just accumulation of individual learning (Fontana, 2009).

Organization has an ability to learn through cognition and memory system, developed and shared among organization members (Fiol and Lyles, 1985). Hedberg (1981) reveals that organization memories keep certain behaviours, mental maps, norms, and organizational values from time to time. So, organizations have ability to build understanding and interpretation about their environment and start to appraise useful strategies (Daft and Weick, 1984; Donaldson and Lorsch, 1983; Starbuck et al., 1978).
Based on the learning process, there are 2 kinds of learning process in organizational learning: single loop learning process and double loop learning process (Argyris and Schon, 1978; Bomers, 1989; Duncan and Weiss, 1979; Fiol dan Lyles, 1985). Visser (2007) reveals 3 kinds of learning process in organization (1) deutero-learning, (2) meta learning, and (3) planned learning. Deutero-learning refers to adaptation behaviour toward situation forming pattern at relation levels in organizational context. Meta learning refers to learning process reflection and searching at individual and group in organization level. Planned learning refers to organization systems creation and maintenance, routines, procedures and structure in which organization members are encouraged to do meta learn periodically and meta learning result embed to future employed.

Individual roles in organization need to be clarified in order to understand organization learning process. Based on Argyris and Schon’s (1978) action theory, every individual in organization has a kind of action theory. This action theory is obtained either from their own or collective experiences that are rolled as a kind of organization map and guide activities in organization. Organization learns by encoding past experience result inferences unto routines that guide organizational behaviour (Levitt and March, 1988).

Deutero-learning practice encourage organization to make reflection and research (Visser, 2007). Organizational learning occurs when individuals find something new from their actions that are based on their previous action theory. If these finding enforce existing action theory, finding will cause adaptation incremental change (single loop learning). But if these findings replace existing action theory, the finding will cause radical change (double loop learning). If connected with innovation, single loop learning can produce incremental innovation, although double loop learning can produce radical innovation.

Based on the above explanation, a proposition can be generated,

**Proposition 2:** deutero-learning practice in firm will encourage firm’s business model innovation.

This proposition is based on insight when firm implement deutero-learning (learning to learn), firm will make reflection and research about their insights and experiments. Based on that reflection and research, the firm will generate new knowledge. The new knowledge becomes a feedback to make innovation.

More over, innovation will generate competitive advantage (Barney and Hesterly, 2008). Innovation as competitive advantage is produced from new competences usage (McGrath et al., 1996). New competence is triggered by effort to increase performance and closing gap between desired condition and existing condition. Deutero-learning will encourage new resource usages, new ways or new combinations to increase performance. Thereby, deutero-learning will encourage organization ability to innovate.

### 2.6. Organization Culture and Business Model Innovation

Organizational culture is defined as a pattern of basic assumptions that shared and learned by a group, when they solve adaptation problems with external actors and when they solve internal integration problems. Pattern from this basic assumption is tested and assumed to be reliable, so new members of organization must learn it as a true way in view, think, feels when they find problems outside organization (Schein, 2004). Organization culture at least has 3 characteristics. It is (1) transferred to new employee through socialization process; (2) affected individual, group and also organization behaviour; (3) operated in several organization level. It means that organizational culture reflect organizational values and beliefs and can be seen from organization’s member behaviour either as group or as individual.

More over, organizational culture is affected by business environment, industrial environment and national culture (Kreitner and Kinicki, 2008; Hatch and Cunliffe, 2006). Organization culture then will affect individual behaviour in
organization that will affect organization performance. When organization performance does not meet the target, feedback and organizational culture adjustment will be given. Then organization culture will be formed and encourage new behaviour that also encourage expected organization performance (Hrebiniak, 2005).

One of perspectives in organization culture is the competing values framework (Cameron and Quinn, 2006). Organization culture type emerge through this perspective is based on two kinds of conflict. First, conflict about focus to internal or external environment. Second, conflict about focus to flexibility and discretion or focus to stability and control. From the two dimensions, four types of organizational culture is obtained: clan culture, adhocracy culture, market culture, hierarchy culture.

Clan culture is internal environment and integration focus organizational culture. Clan culture stress on flexibility and discretion (Cameron and Quinn, 2006), similar to family organization, where effectiveness reaches by encourage to collaborate among employee (Cameron and Quinn, 2006; Kreitner and Kinicki, 2008). Employee is focus in firm and cohesiveness gained by employee participation in consensus, work satisfaction and commitment (Kreitner and Kinicki, 2008; Scherer, 1988). Organization allocates a large number of resources to recruit and develop employee, view customer as partner (Kreiner and Kinicki, 2008). The objectives are collaboration through cohesiveness, participation, communication and empowerment (Kreitner and Kinicki, 2008; Scherer, 1988).

Adhocracy culture is an external environment and differentiation focus type of organization culture. Adhocracy culture appreciate flexibility and discretion than stability and control (Cameron and Quinn, 2006). It encourages creative products and services creation through ability to adaptation, creative, quick respond to change in market. Power and authority in organization decentralize through effort to encourage employee to taking a risk, thinking with new way, and doing experiment through search new way in execute and finishing task. This culture is suitable for industries that require innovation to enforce growth (Kreitner and Kinicki, 2008). The objectives are creation something new through adaptability, creativity, agility. Moreover, result from this type of organization is breakthrough resulted innovation, growth and output (Cameron and Quinn, 2006).

Market culture is external environment and differentiation focus organization culture type. Market culture also stressed on stability and control, moved by competition and strong will to get results and meet targets. Customer and profit prioritized than employee development and satisfaction. Manager’s first objective is encouraging productivity, profit and customer satisfaction. Employee are expected to react quickly, work hard and produce high quality and on time result. Market culture emphasizing authority centralization, high level control and tend to appreciate problem solver employee (Cameron and Quinn, 2006).

Hierarchy culture is internal environment and integration focus organization culture type. Hierarchy culture appreciate stability and control (Cameron and Quinn, 2006), reliable internal development process, extensive measurement and variation of control mechanism is very encouraged (Kreitner and Kinicki, 2008). Expected final result is efficiency, on time, reliable in product and service production and delivery (Cameron and Quinn, 2006).

According to explanation above, a proposition is generated:

**Proposition 3:** Firm with adhocracy culture will encourage business model innovation.

This proposition based on understanding that innovation is a process where all alternative outcomes cannot be known in advance (Lundvall, 1998). Firm requires experiments to encourage innovation practices. Adhocracy culture and clan culture are organizational culture types that
appreciate and encourage flexibility and discretion. These type of organizational culture would encourage organization member to make experiments in action as well as decision making. The accumulation of experience in new way of action and decision making will encourage organization to innovate. Moreover, in the era of open innovation (Chesbrough, 2003), adhocracy culture has an advantage than clan culture because it more emphasizes on external factors.

3. CONCLUSION

To face new competition, a firm must make business model innovation. Deutero-learning and adhocracy culture will encourage business model innovation. But empirical study still needed to know how far the proposed concepts work.

4. REFERENCES


AUTHOR BIOGRAPHIES

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