

## Adaptive Business Model, Adaptive Policies

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### Abstract

This article intends to open a debate on the changes the start-up movement needs; both in terms of business models, methods of analysis and presentation, both in the solicitation of supporting policies the movement is asking. The question arises from an ambiguity and a breaking point: the ambiguity is the use of the term "startup", initially, until 15 years ago, reserved for new high-tech initiatives with a rapid growth and fast IPO exit; now the term is more extended and is used to stimulate self-employment projects following the Kauffmann report assessment: The breaking point is in the Global Change: the raising "economy 4.0" is a jobless economy where technology, the same as a startup should push, will offer a cost saving organizations with less and less need of human labor.

**Relevance to innovation.** Change in training young hopeful entrepreneur, driving them to self-employment through the creation of new business. Change in preparing them to conduct their businesses with much more flexible attitude than what has characterized the current global economic crisis. Two reflections at a glance: how to organize and present an "initial" business plan in future "liquid and flexible" economies, how to generate new support policies mixing technologies, social innovation, employment and regional development. The paper presents some indications to generate public program to boost business creation.

**Keywords:** Business creation, Development, Industry 4.0, Social Innovation, Start Up

### Introduction

Europe is where the "Startup Death Valley" grows without limits: a problem without an easy solution. On one side, we cannot tie the "Start Up" expression only to the advanced technologies, when the widespread economy of these countries needs to apply innovation in more traditional sectors. Differently, the U.S. economic structure allows rapid absorption of new high-tech initiatives in the corporate that often have even solicited these initiatives. Despite this, recent analyzes have revealed decreases in the birth of US new businesses, while traditional sectors are showing a growth.

Europe presents a severe gap with the possibility to attract investors, interested in high-tech and not patient enough to follow turnaround of local existing sectors, follower of rapid-growth initiatives more typical in the US start-up scenario; the absence of private investors leads European public policies to "force" the development of business creation, through financial support. Now without a relevant success: the result of this effort is a huge pushing of youth creativity, with no real experience in execution, no competence in company and risk management.

The goal of this paper is twofold. First to propose policies and suggestion to implement acceleration projects more suitable to local economies and their needs, to obtain an increment of the employment growth; even considering a global perspective, and even exploring advanced technology platforms. Second, to design training programs that will insist on developing execution skills, utilizing more flexible tools than traditional business plans. Leading entrepreneurs to use more effective and advanced methods of story-telling.

Now, unemployment figures in many European countries demonstrate that companies continue to evolve their organizations by reducing labor costs; start-ups are not building a real alternative: they seem to be more "unstructured moments of individual creativity" than business projects. (Citelli 2017)

## **Method**

The contents of the article are the result of a comparative analysis involving more than 300 start-up projects in the last four years, in various countries of South East Europe; the author has also worked as a scout for investments funds since 1999, participating the creation of several successes.

## **A new approach: creative business, if consistent**

Despite a huge spread of attentions to innovation and business creation process, changes in development of small and medium-sized enterprises in Europe do not show significant results; with a consequent inexistent impact on employment level. Small and Medium-sized Enterprises are often too small to have a real interest in "organic" innovation processes; consequently, they are losing competitiveness and pushed out of the market: a mortality that has reached excessive levels. In South and South East Europe, the SME system has been always represented as a driving force for stability and thus as a positive momentum in maintaining the levels of quality of life for many families; now the economic crisis is literally "killing" this segment of the European economy, presenting a problem that must be addressed.

Even if a marginal GDP growth is being measured in some countries, checked in microscopic percentage, this is the result of the application of financial models insisting in cost saving programs and then in "jobless" organizations; with negative impacts on the overall social economic development: the apparent growth is the result of companies offshoring and outsourcing with the main goal of labor cost reduction.

It should be remembered that 70% of new jobs in Europe is generated by new businesses, often "creative businesses". The "Real Economy System" includes SMEs with

a high number of employees (23 million SMEs in Europe - 75 million jobs). Therefore, the SMEs high rate of mortality implies loss of jobs and a total lack of attractiveness to potential new investors. To develop an "appropriate" start-up movement, even considering the limited employment levels at the beginning of the business process creation, can have a significant impact on the global innovation processes of SMEs in the region in which the movement acts, contributing to the construction of a virtuous ecosystem.

Its necessary to clarify the term "creative business": the expression has been generalized giving an extended meaning; not only "knowledge economy" businesses, but all the activities influenced by Web technology and sometime, even more generally, of innovation. As an example, in agrofood sector, the organization of a web business promotion of agricultural products, presented as "experiential and emotional tour", with links to the Mediterranean culture, to diet or to a health requirement (gluten-free, anti-diabetic, or otherwise), is a creative initiative applying new creativity to the promotion of traditional products and thus to the development of existing firms. The new enterprise drags in this case "old" ones with positive, synergistic effects. It is necessary for the new "agrofood" company just described, to have not a rigid revenue model, but a permanent tuning and an "on the road development"; transforming "early adopters" in a solid web success in terms of number of accesses leads to consider economic strategies mainly related with revenues from advertising.

But in the meantime, the initiative can release collateral products like the issue of a recipes book, with local traditional food companies as sponsors: this action will bring fast added revenues and a strong support to the brand penetration, which is essential for the consequent steps on the web.

## **From business plan to storytelling**

The processes of innovation in small and medium-sized enterprises in Europe do not present such significant results and successes as to influence the economic crisis affecting our Countries, especially regarding employment levels and thus spread of wealth.

It should be considered that both the processes of creation of new businesses and the processes of change and innovation in existing companies, especially SME's, have no indicators of success in Europe, and indeed new businesses and SMEs show a high rate of mortality; For many experimental initiatives, aimed at overcoming youth unemployment and then attempting to generate self-employment through entrepreneurship creation and development, there is no set of adequate, sustainable statistical achievements. This also applies to existing businesses, with traditional activities in crisis for the effects of globalization and increased competitiveness, i.e. businesses that fail to successfully integrate elements of innovation in their adjustment path. When innovation is perceived exclusively as "technological", the contribution of advanced platforms in the business model is often not correctly set and the result puts a strain on the business instead of helping it. A "formalized" business model is not very often a part of the managerial culture of SMEs; most of those, even if they are on the market since long time, have "intuitive" models, formed by experience and by traditional view of the entrepreneur. Moreover, regarding the so-called "startups", their business models follow, unfortunately

too often, the goal of "attracting" investors, presenting unrealistic financial metrics, and neglecting guidelines to conduct and to develop the company.

It follows that it is necessary to develop specific criteria for the business models of SMEs, especially if they tend to innovation and change, integrating their traditional business with new ideas or creating new ideas as start-up. A business model includes the terms in which the company defines: content (product or service), context (market), structure (organizational form), governance (external relations and partnerships), as referred to by the Call. It should be added that it is necessary to find an "adaptive" method to allow the company to "change the path of change", an apparent play on words that describes how the failures are the result of not only careless planning, but also of careful and very often too rigid one. Over the past two decades, the term business model has been largely employed in the extant literature. Specifically, a business model identifies how firms may create new value for customers and then convert payments received to profits (Teece, 2010). Thereby, to profit from innovation, entrepreneurs need to create not only valuable product and process innovations but also to design excellent business models, by fully understanding business design options as well as customer needs and technological trajectories. According Henry Chesbrough (2010), the father of the open innovation approach, a business model must fulfill the following requirements:

- to articulate the value proposition;
- to identify a market segment and specify the revenue generation mechanism;
- to define the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain;
- to detail the revenue mechanism(s) by which the firm will be paid for the offering;
- to estimate the cost structure and profit potential;
- to describe the position of the firm within the value network;
- to identify potential competitors;
- to formulate the competitive strategy for gaining competitive advantage.

In a recent study on business model, Zott and Amin (2010) have synthesized the above issues, arguing that the most relevant elements of a business model may be summarized into content, structure and governance. Content refers to the selection of activities, structure describes how the activities are linked (e.g., the sequencing between them), and it also captures their importance for the business model, and, finally, governance refers to who carries out the various activities.

The extensive adoption of the term business model seems to be in a certain sense intrinsically connected with technology-based companies. Indeed, business models seemed to be the answer for explaining how innovative undertakings are dealing with technology or any other form of unclear but potentially profitable concepts, foreign to the logic of traditional industries (Da Silva and Trkman, 2013). A key milestone in the proliferation of the terms use was the disruptive changes introduced by new technology, such as ICT and the Internet, which implied the emergence of novel business strategies and made the Industrial Age way of doing business as inadequate and obsolete (e.g., Venkatraman and Henderson, 1998).

From a theoretical perspective, multiple lenses have been applied to discuss the role of business model in the actual competitive scenario, as the cases of the resource based view (RBV) (Wernerfelt, 1984) and transaction cost economics (TCE) (Williamson, 1979). A

typical example of using the RBV to explain the business model term is presented in Hedman and Kalling (2003) where IKEAs business model is exposed through resources such as design skills, supplier relations, sourcing networks, and cultural factors like strong commitment and leadership. McIvor (2009) emphasized the importance of combining the RBV and the transaction cost economics (TCE) theories. As business value is created from unique combinations of resources, TCE identifies transaction efficiency as a source of value (Morris et al., 2005). Furthermore, business models have been also discussed in relation to the so called dynamic capabilities (Teece et al., 1997), since strategy shapes the development of capabilities that can alter current business models, and strategy is about building dynamic capabilities aimed at responding efficiently to future and existing contingencies (Ambrosini and Bowman, 2009).

A further question that has recently emerged in the literature regards how to innovate business models, in the attempt to design novel solutions more fitting with the current socio-economic scenario, as well as with the changed markets needs and expectations. Chesbrough (2006) has suggested the adoption of open business models, which create value by leveraging many more ideas, including external ones. To capture value these models rely on assets, resources, and positions not only in the company but also in other firms. In line with this idea, Zott and Amin (2010) established that, to develop new business models, actors must create novel systems including novelty, lock-in, complementarities, and efficiency (summarized by the acronym NICE), where:

- *novelty* is the adoption of new activities (content), and/or new ways of linking the activities (structure), and/or new ways of governing the activities (governance);
- *lock-in* represents their power to keep third parties attracted as business model participants;
- *complementarities* are present whenever bundling activities within a system provides more value than running activities separately;
- *efficiency* refers to how firms use their activity system to achieve greater efficiency through reducing transaction costs.

Finally, Teece (2010) has provided a sort of guideline for helping entrepreneurs in redesigning their business models. Specifically, questions to consider include:

- how does the product or service bring utility to the consumer? How is it likely to be used? As much as innovation requires the provision of complements, are the necessary complements already available to the consumer with the convenience and price that is desirable?
- what is the deep truth about what customers really value and how will the firms service/product offering satisfy those needs? What might the customer pay for receiving this value?
- how large is the market? Is the product/service honed to support a mass market?
- are there alternative offerings already in the market? How is the offering superior to them?
- where is the industry in its evolution? Has a dominant design emerged?
- what are the (contractual) structures needed to combine the activities that must be performed to deliver value to the consumer?
- what will it cost to provide the product/service? How will those costs behave as volume and other factors change?

- what is the nature of the appropriability regime?

However, despite this extensive interest towards business model, several issues still remain making this an interesting and promising research topic. Further investigations are needed to deepen our understanding on how individuals and firms may innovate their business models building and presentation, by creating novel business architectures more able to adapt to the emerging trends. Is storytelling a solution? Especially when the new initiative is dealing with emerging market and early adopter? Some considerations are now raising on the US scenario:

Clemson University entrepreneurship professor William B. Gartner believes business plans are essential. And the SBA notes on its website: "The importance of a comprehensive, thoughtful business plan cannot be over-emphasized." But lately, questions have arisen.

In 2006, William Bygrave, a professor emeritus at Babson College and longtime entrepreneurship researcher, studied several years' worth of Babson graduates to find out how much better those who started businesses with a formal, written plan did than those who didn't. "We can't find any difference," he admits. In other words, Bygrave and his team found that entrepreneurs who began with formal plans had no greater success than those who started without them...

So, what would Bygrave like to see instead of a business plan? Attempts to sell the product to actual customers, even if it doesn't exist yet. "Have you talked to a customer?" he asks. "If not, I don't want to talk to you about the business. (Mark Henricks, 2008)

## **Acceleration policies and business creation integrated approach**

New initiatives around business creation have multiplied their articulation with a waste of possible new definitions; incubators, co-working spaces, accelerators, start-up and start-up cup weekend, are just some of the new expressions that feed the mantra of startups as the key to a broader economic development. We must bring order and try to target consistent programs, especially public, with a clearly defined strategy, as the result of convincing analysis.

It is not possible to orient youth employment only towards the "conception" of new businesses: it is very important to give a strong training in risk management and a global entrepreneurial education; a major issue, in consideration that the "subjective individual entrepreneurship" is a strong feature whatever the role hired in an organization. Coherently, the incubation programs for young potential entrepreneurs should have a strong priority in giving "execution competences", basic to whichever entry in the working world.

Again, whatever it will be the aim of the new initiative, including social innovation, it will be essential to deal with "sustainable" development concepts; it will mean to think however in terms of "generation of value" and "cash flow". The main streams for any aspiring entrepreneurs is: how will I make profit? How should I attract investors?

A new initiative, with a significant social impact and a strong return in terms of "community growth", can be characterized by a low-slope growth curves and even so, attract investors: as per recent analysis, the 75% of "rapid growth start-up", although financed by venture capital, are not successful, while "slow & steady growth" new business can be attractive for clever investors, really interested in the social-economic challenge: the motivation of financial speculation in support of a start-up is permissible, but not required!

The introduction of a concept of "community" in a strategy to define development policies will enforce the goal to orient innovation and creativity of new businesses forward an interaction with existing traditional businesses, leading these in the necessary turnaround to get out from business crisis and reach a new economic success.

In recent years, there have been several attempts to enforce the dissemination of business innovation programs, both in terms of changes in traditional companies, both pushing the creation of new businesses. The main problem of all the undertaken programs in many of the observed countries, has been the lack of a vision of an integrated system. Trying an organic relationship between the creation of new initiatives and an integrated development of the economies and markets, is a key element in the definition of any supporting program.

Can accelerators and incubators be solution, even partial, for the building process of an integrated regional development strategy? Up to now, incubators and accelerators created by public programs can be considered "political experiments", not reaching the goal of an effective ecosystem and with ineffective results in the economic and social growth. An accelerator/incubator, being dedicated to reach relevant results in terms of cross-fertilization, should be a place where to meet different competences, management skills with R&D competences, universities and enterprises, all corroborated by appropriate financial resources and in the meantime attractive of new ones from new investors. The main goal is to present, even in a single physical and symbolic place, an efficient and effective ecosystem of innovative integration: a good way to use investments, but also to attract them: an incubator/accelerator can be an incisive place to symbolize the organizational capacity of a community and its development programs.

A "regional" acceleration strategy must be coherent with the economic and social specifications of local market: "glocal" is still a relevant expression to build a right mix of high-tech and local manufacturing. High-Tech industries are the most likely to show up, with a suitable growth curve, value such as to interest international investors. But it is not possible to neglect the competitive value of the growth of traditional sectors in a "local-but-potentially-global" economy, especially if the goal is to increase the employment level. An alternative to the jobless framework of the Industry 4.0 model.

## **Accelerator as a best practice**

A place where to concentrate innovative capacity and cross fertilization attitude, focusing the attention to significant New-Tech sectors for the territory on which the accelerator operates; new-tech as a neologism representing the innovative applications of even simple solutions to push local growth versus global competitiveness. A moment for representing

local skills and a backstage for investors attraction. An opportunity to push the creation of a "community venture capital", an alternative to the corporate venture capital generated by small local investors, engaged in developing their business with innovative solution. A contamination lab to disseminate innovation to SMEs and business culture to young people, a laboratory for the development of new models of economic sustainability.

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