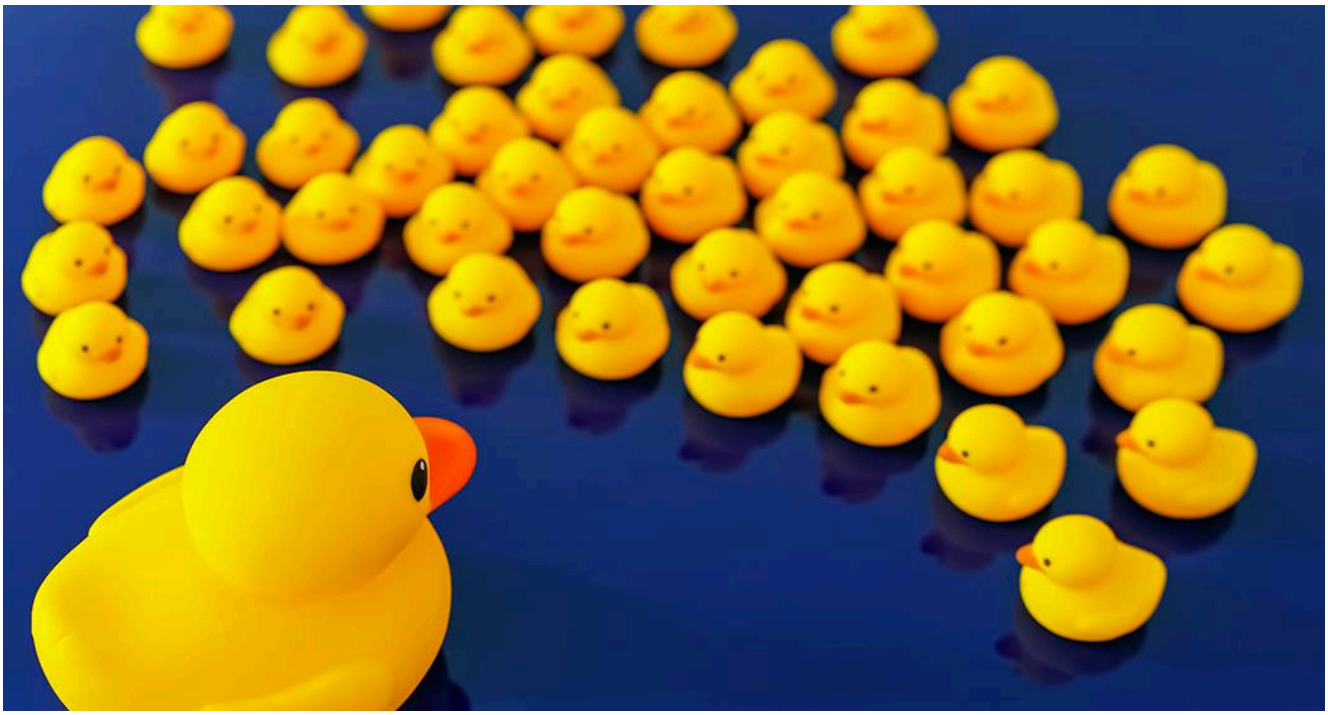
Business model innovation: how founders instill it

Founders have a window of opportunity in which to create an innovative approach to business models that will define their firm going forward.



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In 1997, Netflix was renting DVDs by mail. Today, it's a streaming service with 167 million paid subscribers worldwide that has vastly changed the way we consume movies and television. What has changed, apart from the world at large, is Netflix's business model.

Amazon, too, has shown great flexibility in its business model, bringing online retailing first to bookselling, and then to everything else.

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Business model innovation has positive effects on performance for young companies, and it can allow established firms to evolve to meet new demands. And while external factors -- such as economic crises, changing customer preferences and the latest technology -- can push a company to innovate its business model, not all firms respond with agility to external pressure. What *is* the key to an innovative orientation here?

Christoph Zott of IESE continues his research on business models in this paper with Yuliya Snihur from Toulouse Business School, published in the *Academy of Management Journal*. It examines how much a company owes its innovativeness to founding -- and founders' -- principles.

The effects of founders on the long-term likelihood of companies to be innovative with business models cannot be overstated, according to the research. The authors refer to the process of this influence as "imprinting," and it is carried out in two, interrelated ways:

- **Structural imprinting**: here, a founder's beliefs, expertise and behaviors directly affect how the company's business model is set up and to what extent it is innovative.
- **Cognitive imprinting**: this describes a founder's influence on their team. New venture teams assimilate founder attitudes and behaviors, especially with regards to business model innovation -- and enact them.

Founders have long gotten credit for their formative influence on company culture, but the paper goes further in showing the link between cognitive and structural imprinting, which allows new venture team members to institutionalize founder practices. "In one of our cases," the authors write, "the founder left in 2014, yet employees remembered and repeatedly referred to him during our interviews in 2017. They commented on how the novel practices associated with his legacy were treasured, assimilated and enacted" for ongoing innovation.

Best behaviors for business model innovation

So, founders and the teams they choose are key, but what exactly are the best practices for imprinting innovation in young companies?

Zott and Snihur studied six ventures in depth: three that displayed high levels of business model innovation and three that were low on novelty. In these cases, over the course of more than 10 years, they pinpointed three founder practices that were particularly important in predicting high levels of business model innovation in the company's trajectory:

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- **Industry-spanning search**: active exploration outside the venture's own industry for new business model ideas. This shook things up more than copying models from elsewhere in the same industry.
- **Complex system thinking style**: exceptional and detailed understanding of how the whole industry is structured and functions. On the flip side, focusing on internal corporate issues, such as cost control and operational efficiency, hampered creativity.
- **Powerful centralized decision-making**: while diversity in management teams has been shown to be important for innovation, Zott and Snihur discovered that when a founder had the final say, more innovative ideas were enacted.

Establishing a culture of business model innovation

The key, according to this research, is for founders to instigate a culture that's open to boundary-spanning innovation from the get-go, with a powerful leader willing to take risks at the helm.

What happens if a founder moves on? Through their cognitive imprint, the novelty mindset can live on. Cognitive imprinting happens via mentoring and role modelling -- i.e., when founders are seen as inspiring leaders to be emulated.

It may surprise some to hear that diverse teams are not necessarily the best way to innovate if decision-making is shared. While all six organizations studied here had diverse teams, it was those with stronger, more independent leadership that ended up with more business model innovation.

In sum, via structural and cognitive imprinting, people in young companies can absorb values, attitudes and behaviors that lead to a novelty mindset. New venture founders have a window of opportunity to create the kind of culture that could -- with some luck, hard work and perseverance -- lead to their firm becoming the next Netflix.

Methodology, very briefly

Starting in 2011, the researchers tracked their carefully selected sample of six ventures'

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business models from founding (either 2008 or 2009) until 2017.

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