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Leadership and business model innovation in the internationalization of SMEs (Case Study in Pasuruan Furniture)

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Abstract

Based on the differences between small-scale and large-scale business model innovation, and between directing and empowering leadership, we examine how CEOs at UKM Furniture in Pasuruan led business model innovation during the internationalization process. Based on the case of a Furniture SME in Pasuruan, we develop a theoretical framework that points to two distinct patterns in the articulation between CEO leadership style and business model innovation. We demonstrate that small-scale business model innovation led by directive leadership results in more timely foreign market entries. However, to increase international sales, large-scale business model innovation is required. This is facilitated by the CEO's empowering leadership style.

Keywords: Leadership, Business model innovation, SMEs

INTRODUCTION

Business model innovation (BMI), which is defined by Amit and Zott (2010, p. 2) as the process of “designing a new, or modifying an existing enterprise activity system”, is considered a positive contribution to performance (Zott and Amit, 2007). Recognizing the peculiarities of BMI when compared to product or process innovation (Bucherer et al., 2012; Damanpour, 2010; Teece, 2010), scholars have investigated how established firms reconfigure their business models (Bocken and Geradts, 2020; Snihur and Wiklund, 2019), or how new ventures and start-ups develop innovative business models from the start (Bocken and Snihur, 2020; Colovic and Schruoffeneger, 2021; Thompson and McMillan, 2010; Zott and Amit, 2007).

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Research has demonstrated the possibilities and factors that cause BMI, which can be external, such as environmental turbulence or technological evolution (Teece, 2018), or internal, such as institutional, organizational, or strategic (Bocken and Geradts, 2020). Because it involves dealing with different customers and different institutional conditions, as well as complying with different rules and regulations, internationalization has been identified as a critical moment in the existence of companies, encouraging companies to engage in BMI (Onetti et al., 2012; Rask, 2014). According to Bohnsack et al. (2020), the internationalization decision itself may depend on whether a company can take advantage of the advantages related to its business model to create and capture value in foreign markets.

When small and medium enterprises (SMEs) with a long history of operating within their country's borders decide to embark on an internationalization journey, they need to change their existing business model, or develop an entirely new business model (Amit and Zott, 2010). While changes to the business model are certainly one of the main transformation processes that SMEs undertake during internationalization (Ahokangas et al., 2014; Child et al., 2017), their leaders (owner-managers or CEOs) play a central role in spurring and orchestrating the transformation. (Chesbrough, 2010; Lindgren, 2012; Stieglitz and Foss, 2015). Indeed, the main issue is how the CEO leads the BMI, which is closely related to the leadership style of the CEO, which is defined as the behavior of the leader with respect to the pattern of decision-making, involvement of followers, and the degree of autonomy granted to the latter (Martin et al., 2013). Consequently, SMEs pursuing BMI face two fundamental types of tension: the degree of business model innovation required for the process and the way in which the CEO leads this innovation. However, despite the importance of these issues, there is a lack of theory about the way SME CEOs articulate their leadership style and BMI during the company's internationalization process. To address this theoretical gap, we posed the following research question: how do SME CEOs lead Indonesian migrant workers during the internationalization process? In particular, we examine how business leaders approach BMI, and how their leadership style characteristics influence this process and subsequent internationalization outcomes, which consist of entry time – that is, the time span between an internationalization decision and actual market entry – and increased international sales from time to time.

Drawing on modern leadership theory, which is based on the general principles of contingency and situation (Blanchard et al., 1985; Fiedler, 1967; Fiedler and Garcia, 1987), and which proposes that leadership styles become flexible, depending on the environment. environment, followers, and tasks, we consider

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leadership as a vector of company innovation and adaptation in an uncertain and volatile environment. Leadership has two main functions: to communicate a vision, and to engage followers and other stakeholders in achieving that vision (Gupta et al., 2004)

Martin et al. (2013) defines leadership style as the leader's behavior related to (i) decision-making patterns, (ii) follower involvement, and (iii) the level of autonomy granted to the latter. These three behavioral traits are manifestations of leadership style and, as with the examination of the business model components in the case of BMI, these behavioral traits are used to analyze leadership style. Research on leadership styles has identified different, sometimes contradictory, styles resulting in different proposed categories, and identified many styles. However, according to Hmieleski and Ensley (2007) and Lorinkova et al. (2013), directive and empowering leadership styles are fundamental, distinct, and contrasting, which is the consensus in the literature.

These styles focus on leader behavior, as opposed to, for example, transactional and transformational leadership, which denote transactional relationships between leaders and followers, and officers' reward systems (Martin et al., 2013). The many styles of leadership require careful framing of studies involving leadership to maintain a clear focus in each study

To answer our research questions, we conducted several case studies for the purpose of inductive theory building (Eisenhardt and Graebner, 2007). Inductive theory building is appropriate when answering “how” and “why” questions in under-explored research areas (Edmondson and McManus, 2007; Welch et al., 2011), which was the case in our study. We chose UKM Furniture in Pasuruan as the right place,

We focus on relatively old SMEs that typically display an established business model (Chesbrough, 2010), and which have embarked on internationalization at a later stage in their existence. We expect BMI and leadership style to play a very significant role in the internationalization of companies.

METHODE

Our research aims to contribute to theory by filling in the gaps discussed above. In this regard, we designed an inductive theory building approach based on several case studies. Such an approach lends itself to in-depth research on poorly understood phenomena (Eisen Hardt and Graebner, 2007).

We conducted a case study on a Furniture UKM in Pasuruan, East Java. In this article, we investigate a Furniture UKM which has been running for more than ten years, and is the result of continuing the business of its parents so that it

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becomes a family owned business, and is characterized by strong attachments between the business and personal life of the owner, form one area of common life (Kiyonari, 1990), in which the company is part of the owner's identity and self-esteem. As between the founders and their company, the owner-CEO of UKM Furniture in Pasuruan has a strong psychological attachment with their company, which results in the owner making a strong imprint on the company and shaping its strategic decisions (Garg, 2013). This phenomenon is surely symbolic of the fact that “ordinary” small SMEs, which are not owned by large corporations, are very different from their larger counterparts. Indeed, although local knowledge (eg, Kiyonari, 1990; Sato, 1981; Seki, 1994) of their specificity is commendable, most international scientific examinations of corporations are lacking.

Our theoretical sampling procedure resulted in a sample of four Furniture SMEs in Pasuruan, which fell within the range of between four and ten cases recommended by Eisenhardt (1989b), and used a case study approach (Snihur and Zott, 2020) to study business model innovation. in the Furniture UKM, three of the Furniture UKM are located in the larger City of Pasuruan, and one Furniture UKM is in the Palace of Pasuruan Regency.

FINDING AND DISCUSSION

The aim of this research is to develop a theoretical model linking the leadership of CEOs and BMIs in the context of the recent internationalization of SMEs. Our empirical study is embedded in the specific context of business culture. In this research we develop a coding structure for interview coding. We use the code to compress the data as the first step. We asked a researcher who did not take part in data collection to code eight interviews, one for each case. We then calculated the inter-coder reliability ratio, which was 92%. The encoded material is then sorted into conceptual matrices, namely tables that allow horizontal and vertical reading of data. We cross-checked data and code several times. In addition to coding and sorting the data, we wrote brief narratives for each case, tracing the internationalization of companies, especially emphasizing BMI and the leadership role of the CEO in this process. After conducting an in-case analysis for each case, we performed cross-case comparisons to identify patterns, as well as any points of difference between the cases. This process allowed for the emergence of two dominant patterns in our case study. We therefore regard these patterns as central, and those that diverge as periphery. The central pattern will be the main foundation for building theory, whereas the peripheral pattern will, to a certain extent, allow us to deepen the theory and reveal the boundary conditions relative to the main relationships in the emerging theoretical model.

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process: a theoretical framework

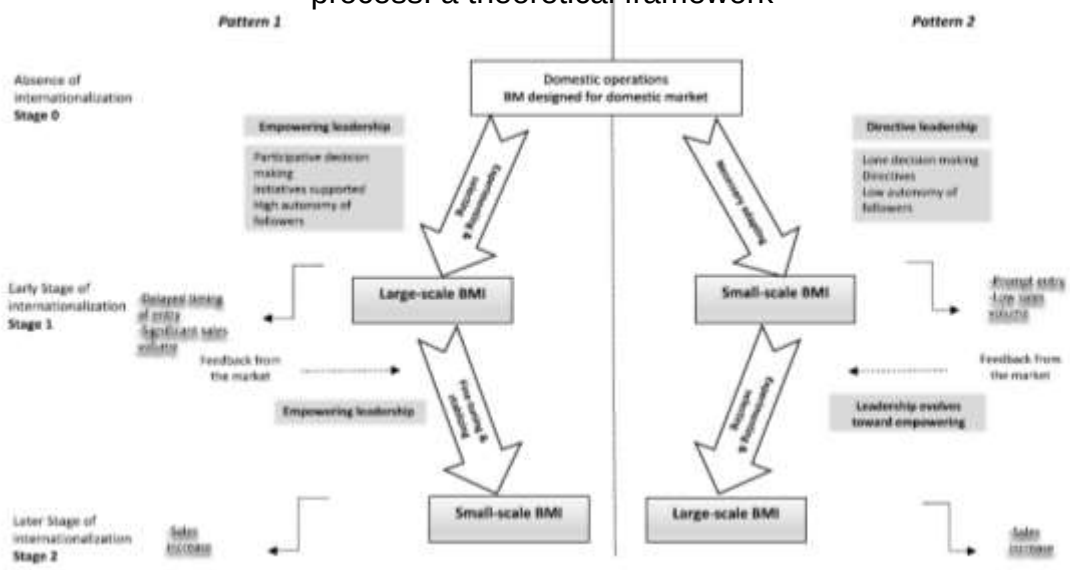


Figure. BMI and CEO leadership styles in the SME internationalization

Late internationalizing SMEs are approaching foreign markets with different levels of BMI. For theory development purposes, we will classify the various levels of BMI performed by the case firms into two opposite categories – large-scale and small-scale BMI, based on the definition of the business model proposed by Zott et al. (2011). Although we maintain these two opposite categories, there are differences within each one. Thus, among companies conducting large-scale BMI, BMI is greater in some than in others. CEO leadership style is the second major construct in our study. Building on the insights from the literature showing that directive and empowering leadership styles are the two basic and distinctive styles for which there is consensus (Lorinkova et al., 2013), we will attempt to characterize the CEO leadership style of a firm, case in one of these special categories, based on three characteristics of leadership behavior: (i) pattern of decision-making, (ii) involvement of followers, and (iii) degree of autonomy granted to the latter.

Based on four case studies of Furniture SMEs in Pasuruan, we identified different configurations of Indonesian Migrant Workers and leadership styles in the workplace during internationalization, showing heterogeneity among SMEs in this respect. Therefore, the first major insight that we were able to gain from our research is that there are different patterns in terms of BMI and leadership styles during internationalization.

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The first pattern is related to empowering SME leaders, and being involved in large-scale BMI since the beginning of internationalization. The choice of large-scale BMIs can be explained by the fact that empowering leaders support initiative, participatory goal setting, innovation, and creativity (Hill and Bartol, 2016; Zhang and Bartol, 2010), which naturally lead to more substantial changes to business models. As illustrated in our framework, such large-scale BMI leads to delays in entry into foreign markets. Consequently, this implies that if SMEs need to enter foreign markets quickly, large-scale BMIs are not the optimal path. However, this pattern allows the company to gain substantial sales in the early stages of internationalization and expand its foreign sales, because all changes to the business model to accommodate internationalization have been made in the early stages of internationalization.

The second central pattern in our framework is directive leadership and small-scale BMI. Interestingly, this pattern gives good results in the early stages of internationalization, especially in terms of entry time. These findings may seem surprising and counterintuitive, but can be explained by features of directive leadership and small-scale BMI and by contingency factors. Directive leadership displays clear focus and determination (Hmieleski and Ensley, 2007), which appear to be essential for entering the market on time. In particular, when a company lacks foreign market knowledge and experience, internationalization can be considered a high-risk investment strategy (Williams et al., 2016). This can prevent companies, especially SMEs, from venturing overseas, especially when their resources and investment capacity are declining, as was the case for the SMEs in our sample. In such circumstances, wide-ranging discussions about whether to enter foreign markets and seek staff support could delay or even prevent internationalization, as consensus proves difficult, if not impossible, to achieve. In addition, employees or followers may not be ready to independently make decisive changes in the company's operations. Directive leadership is associated with leader determination and non-negotiable goals (Pearce et al., 2003), and explains the focus of the firm, which here is on entering foreign markets. In addition, directive leaders usually pursue a single initiative at any given time. Consequently, resources are not "wasted" on various initiatives, but are focused on specific goals (Ensley et al., 2003). In the SMEs in our sample, directive leadership accompanies small-scale BMIs. Indeed, at these companies, much of the innovation involved redefining target segments and rethinking the channels through which to reach those segments. This did not require as much time as a major business model redesign, allowing the company to proceed with internationalization in a timely manner. Business model innovation also carries risks. For this reason, SMEs may avoid changing their

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business model substantially for internationalization purposes, particularly in the early stages of the process, as the benefits of large-scale changes are uncertain.

CONCLUSION

This study aims to better understand the leadership role of the CEO in fostering and leading Indonesian Migrant Workers during internationalization. It proposes a framework for analyzing the evolution of leadership style and BMI during internationalization. Our findings suggest that to sustain international operations, companies need to undertake large-scale BMI to fully respond to the needs of foreign markets, and we highlight that empowered leadership facilitates increased sales in foreign markets. Engaging followers through managerial agency is an important factor for continued success in international operations.

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