

# **Leadership, business model innovation and internationalization performance of late internationalizing firms**

## ***Abstract***

This paper investigates the joint impact of business model innovation and entrepreneurial leadership on the internationalization performance of late internationalizing firms. Building on the distinction between incremental and radical business model innovation on one hand and between directive and empowering leadership on the other hand, we developed a 2x2 matrix depicting four combinations of business model innovation and leadership style, which we used to guide our empirical study. We deployed qualitative methods to study business model innovation, leadership style and internationalization outcomes in eight small firms in Japan. Our findings suggest that in rapidly changing, hostile home-country conditions, directive leadership and incremental business model innovation lead to superior performance in the early stages of internationalization as compared to empowering leadership and radical business model innovation. However, as the firms expand foreign operations, there seems to be a need for a change in leadership style with a greater tendency towards empowering leadership.

Key words: business model, innovation, leadership, internationalization.

## **Introduction**

When small firms have a long history of operating within the borders of their national markets and dealing exclusively with home-country clients, internationalization can prove to be a very difficult endeavor (Kuivalainen et al., 2012). For such companies, internationalization entails profound changes to the activities, value proposition, and internal organization. In other words, internationalization requires significant changes to a firm's business model, defined as the "design or architecture of the value creation, delivery, and capture mechanisms" (Teece, 2010: 172). More specifically, internationalization might necessitate business model innovation – incremental or radical changes to the existing or development of an entirely new business model (Amit & Zott, 2010). Furthermore, cross-border venturing needs to be spurred, guided and supported by the leaders of the company, namely the owner-manager and his/her team who can be regarded as the driving force of internationalization (Hsu et al., 2013).

This paper investigates how business model innovation and leadership style of the owner-manager (hereafter the CEO) drive late internationalization of firms that operated domestically for a number of years, even decades. Building on (i) the distinction between incremental and radical innovation to the business model and (ii) the distinction between directive and empowering leadership (Hmieleski & Ensley, 2007; Lorinkova et al., 2013), we develop a 2x2 matrix depicting different combinations of leadership styles and the extent of business model innovation. Our goal is to investigate (i) which of these combinations can be observed in late internationalizers, both in the early and the subsequent stages of internationalization and (ii) which could be regarded as successful in these two stages of venturing abroad. We combine here two different perspectives, one from strategy and the other from organizational behavior and we bring them to International Business in order to grasp a complex phenomenon of late internationalization of small and medium-sized

enterprises (SMEs). We chose to focus on relatively “old” firms because they are frequently characterized by strong routines, and an established (and often inert) organizational culture. We contend that the role of business model innovation and entrepreneurial leadership in leading international venturing is particularly significant in such firms. Moreover, we focus our attention on traditional, manufacturing SMEs, as opposed to service businesses, which, because of their essential features are less prone to internationalize. We believe that an investigation of the ways manufacturing companies embark on the internationalization journey late in their existence can yield particularly interesting insights.

We chose Japan as an appropriate setting for our study. Japan has experienced severe industry relocation to China and other emerging countries in the region. This process has involved mainly larger firms, which have abandoned their traditional suppliers in Japan in search of lower cost inputs in other countries. SMEs have thus been left with much less work and they have been prompted to offer their products to foreign clients. In addition, Japan features great numbers of older manufacturing SMEs, frequently concentrated in specific areas or clusters, which facilitates access to these firms. Furthermore, while Japan’s SMEs have been extensively analyzed in the past from the perspective of subcontracting relationships within the *keiretsu* system, little is known about how these firms venture abroad, and the role of business model innovation and CEO leadership in this process.

We conducted our empirical study in Japan’s industrial clusters located in urban areas. These areas are characterized by dense concentrations of *machi kôba* - “town factories” of which the great majority used to subcontract for large companies such as Toyota, Nissan, Hitachi, Yamaha, Sony, Panasonic, Canon and others. Semi-structured interviews were conducted with the CEOs and employees (managers, engineers and workers) in eight SMEs. We privileged those respondents that report directly to the CEO. The firms in the sample are several decades old and they are all late internationalizers. An interview guide was developed

before the data collection process. Interviews were recorded and transcribed verbatim. We also collected secondary data, in particular those related to international operations, which allowed us to trace the history of company internationalization. We deployed content analyses techniques to analyze the primary and secondary data (Krippendorff, 2004; Neuendorf, 2002).

Our findings suggest that directive leadership combined with incremental business model innovation was adopted by most of the SMEs in the initial stages of internationalization and that this revealed to be more successful than empowering leadership combined with more extensive business model innovation. However, in later stages of internationalization, when firms needed to develop international operations more substantially, empowering leadership in conjunction with more extensive business model innovation seems to be an appropriate choice for expanding foreign operations.

We contribute to the international business literature by cross-fertilizing perspectives from two disciplines (strategy and organizational behavior) to analyze late firm internationalization. Moreover, to the best of our knowledge, our research is the first to examine the relationships between business model innovation and leadership on one hand and late firm internationalization on the other hand.

The paper is organized as follows. In the following section we focus on our conceptual framework that draws from business model innovation and entrepreneurial leadership literature streams. We then outline the methodology that we applied to collect the data. This is followed by the findings and discussion sections. In the concluding section, we highlight our contributions and the limits of our study and we suggest future research directions as well as managerial implications.

## **1. Conceptual framework: Business model innovation and entrepreneurial leadership**

### *1.1. From business models to business model innovation*

A business model represents the way a company creates, captures and delivers value (Teece, 2010). It is a reflection of a firm's strategy (Casadesus-Masanell & Ricart, 2010), depicting its logic, the way it operates and creates value for its stakeholders (Baden-Fuller et al., 2010). Facilitating reasoning and communication to external constituents (Aversa et al., 2015), a business model is also a cognitive device that links managerial thinking to engagement in business activities (Baden-Fuller & Morgan, 2010; Martins et al., 2015). Although business models can be represented in different ways, most recent representations converge to a set of subcategories of consistent elements, also referred to as components or building blocks (Baden-Fuller & Morgan, 2010; Demil & Lecoq, 2010; Foss & Saebi, 2017; Osterwalder & Pigneur, 2010; Zott et al., 2011) – value proposition, target segments, costs/revenues structure, key resources and competences, the organization of activities – and the articulation between them.

In the early 2000s, Mitchell and Coles (2003) argued that business models can be innovated, but this idea has received increasing scholars' attention only in the last several years (Foss & Saebi, 2017). According to Johnson et al. (2008: 58) a “secret to maintaining a thriving business is recognizing when it needs a fundamental change”. Business model innovation, the process of “designing a new, or modifying the firm's extant activity system” (Amit & Zott, 2010: 2) differs from product or process innovation (Teece, 2010) in that it involves changes that concern the entire functioning of the firm, in other words its activity system. Alternatively referred to as *renewal* (Chesborough, 2010), *evolution* (Demil & Lecocq, 2010; Doz & Kosonen, 2010) *modelling* (Aversa et al., 2015) or *reconfiguration* (Bouncken & Fredrich, 2016), business model innovation is understood as an on-going

learning process (McGrath, 2010; Sosna et al., 2010), a discovery-driven, trial-and-error process (Smith et al., 2010) or a continuous reaction to changes in the environment (Demil & Lecocq, 2010). In this research, in line with Casadesus-Masanell and Zhu we define business model innovation as “the search for new logics of the firm and new ways to create and capture value for its stakeholders; it focuses primarily on finding new ways to generate revenues and define value propositions for customers, suppliers, and partners” (2013: 464). This definition is also consistent with Amit and Zott (2010) who argue that *business model innovation* refers to (i) incremental and radical adaptations to an existing business model or (ii) development of a fundamentally different business model. Our particular focus is on the changes to the business model that are new to the firm and not necessarily new to an industry. We will use the terms business model innovation and business model reconfiguration interchangeably.

Business model innovation occurs for different reasons. In some cases, it takes place because the firm receives signals for change from its environment, in others because it follows competitors’ moves or because it can exploit new opportunities or satisfy new needs and changing customer preferences (Johnson et al., 2008; Teece, 2010). Technological innovation can facilitate business model innovation (Calia et al., 2007), due to the change of a firm’s operational and commercial activities. Business model innovation can also be enabled by the leadership style (Smith et al., 2010), the development of new capabilities (Seelos & Mair, 2007), and the strategic agility (Doz & Kosonen, 2010). However, there are various barriers to business model innovation (Battistella et al., 2017; Bouchikhi & Kimberley, 2003; Chesbrough, 2010) such as (i) the underlying configuration of assets, processes and organizational routines as business model innovation requires changes in firm operations and management and is therefore long, costly, and risky; (ii) cognitive barriers, as business model innovation entails overcoming the dominant logic (Chesbrough & Rosenbloom, 2002).

As for its scope, business model innovation can range from involving just one component to a change of all components of the business model and the architecture linking them together (Foss & Saebi, 2017). Consequently, incremental changes involve one or two components or building blocks, whereas radical result in a major overhaul of the business model, involving more than two components and the architecture linking them. When environmental conditions evolve, they prompt vicious circles between or within components of the business model, which might make incremental changes to the business model insufficient to restore performance, and require firms to change their business model radically (Demil & Lecocq, 2010). The success of such a radical reshuffling is strongly dependent on the managers' leadership ability to introduce, pursue and facilitate change. This requires deep knowledge and understanding of the firm's business model, as well as the ability to guide its reconfiguration.

### *1.2. Entrepreneurial leadership: empowering versus directive*

Drawing on the modern leadership theory, which is based on the general principles of contingency and situation (Blanchard et al., 1985; Fiedler, 1967) and which proposes flexibility of leadership style depending on the environment, the circumstances, the followers and the task, entrepreneurial leadership can be defined as “leadership that creates visionary scenarios that are used to assemble and mobilize a ‘supporting cast’ of participants who become committed by the vision to the discovery and exploitation of strategic value creation” (Gupta et al., 2004: 242). Considered as a vector of innovation and adaptation of the firm in uncertain, turbulent environments, entrepreneurial leadership has two main functions: communication of the vision and engagement of followers and other stakeholders into accomplishing this vision (Gupta et al., 2004).

In this research, we draw from organizational behaviour literature and we adopt the distinction between empowering and directive leadership, in line with Hmieleski and Ensley (2007). According to these authors, directive and empowering leader behaviours characterize basic, distinct, and contrasting elements of leadership on which there is agreement in the literature, contrary to, for instance, transformational and transactional leadership (Rafferty and Griffin, 2004), viewed as combinations of different leadership behaviours (Yukl, 1999).

Empowering leadership comprises participative goal-setting, independent behaviour by followers, encouraging initiatives and self-leadership, and opportunity thinking, among other facets (Pearce et al., 2003). Empowering leaders provide support and encouragement to followers, thus increasing their motivation and self-confidence. This type of leadership has proved to be successful in situations in which there is a necessity for high motivation and commitment by followers, especially when a firm is competing in dynamic environments (Ensley et al., 2003). In line with the complexity theory, empowering leadership's role is to enable rather than guide organizational effectiveness in turbulent, dynamic environments (Marion & Uhl-Bien, 2001), distributing leadership across the firm (Pearce, 2004). Notwithstanding the obvious advantages of this type of leadership, there are also several drawbacks, such as: (i) too high investment in time and resources to gather and analyse information; (ii) the dysfunctional number of innovative initiatives entailing lower efficiency and a waste of resources; (iii) pursuit of too many initiatives with an attempt to exploit too many opportunities; (iv) lack of focus (Hmieleski & Ensley, 2007).

Opposite to the empowering is directive leadership, which refers to processes through which leaders command followers to carry out assignments and pursue non-negotiable goals (Pearce et al., 2003). Followers are given little freedom in their decisions and actions; instead, they are subjected to reprimands in case they refuse or fail to pursue the objectives set by directive leaders (Hmieleski & Ensley, 2007). Because it is based on commands and



reprimands, directive leadership is thought to be negatively related to employee motivation, employee creativity and innovativeness. It is also believed to spur negative emotions by followers and a generally negative work atmosphere. Yet directive leadership can also have positive effects, although such effects have not been widely examined in the literature. According to Mumford et al. (2001), directive leadership can facilitate the creation of a shared, collective vision by followers, leading to unified teams. It can also speed up the decision process and increase efficiency, which are the necessary conditions to compete in uncertain, dynamic environments (Eisenhardt, 1989). Furthermore, even though they usually make their decisions alone, directive leaders can still call upon the knowledge of followers to do so (Hmieleski & Ensley, 2007), which suggests that directive leaders should not necessarily be considered as “lone riders” who neglect the skills and knowledge of the followers or subordinates.

### *1.3. Leadership style and business model innovation*

While entrepreneurial leadership and business model innovation have attracted significant and on-going interest from scholars, little research has studied these two phenomena in conjunction. A notable exception is the study by Smith et al. (2010) who argue that complex business models require particular leadership skills to define a vision integrating both exploitation and exploration, to motivate employees and to find solutions to complex problems.

Drawing on the distinction between incremental and radical business model innovation on one hand and the distinction between directive and empowering leadership on the other hand, we design a 2x2 matrix depicting different combinations of leadership style and business model innovation (Figure 1). The role of this matrix is to guide our empirical investigation of

business model innovation and leadership style in internationalization of SMEs that had operated exclusively domestically for a number of years before they embarked on the internationalization journey. As we explained in the introduction section, such SMEs are located in industrial clusters and in the past they were able to survive and even prosper by doing business with local partners. Our goal is to identify the combinations of leadership/business model innovation late internationalizing SMEs choose for the initial stages of internationalization and the ones they opt for in the later stages of internationalization. Furthermore, our goal is to investigate the resulting internationalization performance outcomes.

Figure 1. Leadership style and business model innovation

		<i>Business model innovation</i>	
		<i>Incremental</i>	<i>Radical</i>
<i>Leadership</i>	<i>Directive</i>	Incremental changes to the business model driven by directive leadership <b>(1)</b>	Radical changes to the business model driven by directive leadership <b>(2)</b>
	<i>Empowering</i>	Incremental changes to the business model driven by empowering leadership <b>(3)</b>	Radical changes to the business model driven by empowering leadership <b>(4)</b>

As depicted in the figure above, four combinations of leadership style and business model innovation can be distinguished. Box 1 refers to the situation in which a firm is involved in incremental innovation (involving one or two building blocks) to its business model guided by directive leadership. Box 2 refers to radical innovation to the business model (involving three or more building blocks and/or the architecture linking them) guided by directive leadership. In the lower part of the figure, empowering leadership is driving incremental (box 3) or radical (box 4) innovation to the business model.

## **2. Method and data**

We conducted our empirical study in industrial clusters in Japan. Japan is a suitable setting for our investigation for two main reasons. First, Japan has a great number of SMEs and in particular a great number of manufacturing SMEs that, because of the spectacular economic growth after the World War II, could easily find work within the country's borders. Such SMEs used to work for large Japanese firms as part of the subcontracting system (Japanese Small Business Research Institute, 1998; Whittaker, 1997) and did not show great propensity for internationalization. Second, Japanese industries have been severely affected by industry relocation to South-East Asia and China and this has created a situation in which Japan's SMEs need to look for business opportunities outside the national borders, which results in the traditionally domestic firms being pushed to embark on an internationalization journey late in their existence.

The main data source that we used in this study are face-to-face interviews, conducted on firm premises. We conducted 26 semi-structured interviews with owners - CEOs, senior managers and employees (engineers and other workers) of 8 SMEs, all late internationalizers. Five of the SMEs are located in the great Tokyo region and three are located in the Shizuoka prefecture. The characteristics of these companies are presented in Table 1. To preserve anonymity we refer to these companies by A, B, C, D, E, F, G and H. All of the eight companies are family-owned, which is quite typical of Japanese small-sized firms operating in the manufacturing industry. Only two of the investigated SMEs are owned by women, who stepped in to lead the companies created by their fathers. As the table indicates, all eight firms in the sample are more than 40 years old and all have started internationalizing after at least 20 years of exclusively domestic focus.

We conducted interviews with senior managers and employees in addition to those with CEOs, because these informants could provide their view about the leadership style of the CEOs. Interviews lasted from 55 minutes to 2h10, they were recorded and fully transcribed. An interview guide comprising 25 questions was developed before the data collection process. It was enriched during the data collection to incorporate topics that emerged as important or interesting. The main topics covered during the interviews were the following: company history, company business, business model, leadership style of the CEO, internationalization process including precise history of internationalization, the changes to the business model and the role of the CEO leadership in the process. In addition to interviews, we collected secondary data. These were different documents provided by the SMEs, such as public relations material, brochures or newspaper articles and the information available on the companies' websites. These data provided substantial general information about the companies and to a lesser extent about the internationalization pathways. For information about leadership style of the CEO we relied primarily on face to face interviews with senior managers and employees. As for business model innovation, it was discussed with all respondents.

Table 1. Key features of the investigated SMEs

<b>Firm</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
<b>Location</b>	Shizuoka region	Great Tokyo metropolitan area	Great Tokyo metropolitan area	Great Tokyo metropolitan area	Shizuoka region	Great Tokyo metropolitan area	Shizuoka region	Great Tokyo metropolitan area
<b>Industry</b>	precision engineering, machines	machines, metal, precision engineering	machines, metal	precision engineering, machines	electronics, machines	automotive, machines	machines, metal	machines, metal
<b>Number of employees</b>	40	32	27	38	52	47	39	42
<b>Establishment year</b>	1949	1953	1961	1959	1970	1966	1961	1973
<b>Internationalization year</b>	2001	2004	2006	2002	2003	2006	2000	2002
<b>Gender of the CEO</b>	Male	male	female	male	male	male	male	female

The data analysis process was organized in two stages. In the first stage, each case was analyzed separately. We conducted content analysis (Krippendorff, 2004; Neundorf, 2002) to analyze business model innovation, leadership style and internationalization process (early and later stages) for each case. In the second stage, we compared findings across cases (Silverman, 2013) looking at similarities and differences between them and generalizing across cases. In particular, we were aiming to distinguish the features of business model innovation that then allowed us to classify them into incremental or radical innovation. We were also looking at the features of the leadership style of the CEO and whether and how the style evolved throughout the internationalization process. This allowed us to group cases into sub-categories according to the typology of business model innovation/leadership style that we developed prior to the data collection process (as shown in Figure 1).

### **3. Findings**

Findings reveal that seven out of eight SMEs decided to embark on an internationalization journey to increase their chances of survival. Consequently, they were motivated by necessity rather than by opportunity. The following verbatims illustrate this:

“The clients went away, outside, to Malaysia, China, and other places. It was clear for us that we could no longer count on their orders and that we needed to go abroad ourselves.” Senior manager, company B.

“At one point, our work decreased so drastically that we had to lay off several people. We looked around us, it was more or less the same for the other town factories. So, we thought, there are two options: either we invest in R&D and we try to make our own product or we go abroad.” CEO, company E.

The only firm that ventured abroad by opportunity was led by a woman (firm H). A manager from that company explains that

“Her father sent her to a university in America. When she came back to Japan she found a job at Panasonic and worked there for a while. But, then she needed to take over the company because her father could no longer continue, so she quit her job at Panasonic, came here and became our boss. We, the employees, hadn’t imagined that she would ever do it, because she never seemed really interested in

the company, but to our surprise, she did. And straight away, she started speaking about going international and selling our expertise abroad. She speaks English, so that helps. When you don't understand the language, you are stuck."

Regardless of the motives for venturing abroad, all respondents explained that this endeavor required changes to the firm functioning and, more precisely, changes to the business model. Business model innovation took place in all firms in our sample. In some of them, changes involved one or two components of the business model such as the target segments and distribution channels. A respondent from company E thus states

"Obviously, the clients were new. One of the first that we found was in Seattle. And we had to ship the merchandise there, so we had to organize everything related to shipping, customs and tariffs and so on. It was mostly that that was new."

In other firms, changes were more substantial ranging from redefining the value proposition, acquiring new resources to a major overhaul of the components in the business model and the architecture linking them. For example, an employee from company D said:

"The boss decided to start making these new parts. We first had to make the molds, so for that we brought on board a man we knew, he has special skills in that area. He used to work for a town factory we cooperate with but had retired. So, the boss called him and asked him to join us part time. When we made the molds we then started making the parts. Then the boss went to fairs in Europe and North America to show these things to producers there. The first deals were made rather quickly, we didn't really expect that. It started with a German firm, then an Italian. Actually, it turned out that our expertise is not very common. Precision gear is hard to find apparently."

This example illustrates a major reshuffling of the business model as it involved the acquisition of new resources, the redefinition of the value proposition as well as of the target segments and channels.

Among the eight firms in the sample, three had changed their business model radically from the very outset of the internationalization process. Although the remaining five had undertaken changes to the business model as well, these cannot be characterized as radical, but rather as incremental innovation. As for the leadership style of the CEO, as expected, most CEOs (6 out of 8 including the two women CEOs) practiced directive leadership, in

particular in the initial stages of the internationalization process. This type of leadership is quite common among Japanese small firms. Directive leadership among our sample of firms was characterized by commanding followers to execute tasks, making decisions and setting goals without undertaking broad discussions with the senior managers and employees. Whilst, according to Pearce et al. (2003), directive leadership is also characterized by reprimands, we did not find any evidence of CEOs undertaking such practices. An engineer in firm G said that

“There is not much discussion with the boss. He comes in, says what we have to do. He usually does not tell us exactly how we should do it, because he does not have a precise idea about that every time, but it is clear that there will be no discussion about his decisions.”

A manager from firm E also said that

“Sometimes we are quite certain that we are not going to make it, but we can’t say anything. Because if we do, the boss gets angry. He has a strong head”.

An employee that works for firm C, led by a woman stated that

“When she said that we were going international, there was such determination in her voice that I understood that her decisions cannot and should not be questioned. This was a bit frightening, but it also gave me confidence somehow. I said to myself - if she is so sure we can make it, then we probably can.”

The other two CEOs’ leadership style was closer to empowering leadership in the sense that the decision making process involved a wider range of people, in particular senior managers and engineers. We also found evidence that these two empowering leaders employed innovative management techniques. Thus, one of the CEOs introduced profit distribution as a collective decision. Once the yearly net profit determined all employees are invited to a meeting to discuss individual bonuses and profit re-investment into the business. Although this practice was not directly related to international operations of the firm, it substantially contributed to create a sense of belonging, motivate employees and promote their initiatives, including those that aimed at spurring internationalization.



After having identified the traits of business model innovation and CEO leadership for each case, we classified the eight firms into the matrix that we developed before the data collection process. Figure 2 shows the distribution of the firms across four categories in the initial stages of the internationalization process.

As this figure shows, the most represented case is 1, relative to directive leadership and incremental business model innovation, followed by case 4 relative radical business model innovation and empowering leadership. Whilst we observed one case of radical business model innovation and directive leadership, we did not observe any firm practicing incremental business model innovation and empowering leadership in the initial stages of the internationalization process.

Figure 2. Business model innovation and leadership style in the initial stage of internationalization

		<i>Business model innovation</i>	
		<i>Incremental</i>	<i>Radical</i>
<i>Leadership</i>	<i>Directive</i>	Incremental BMI/directive leadership (1) <b>B, C, E, G, H</b>	Radical BMI / directive leadership (2) <b>D</b>
	<i>Empowering</i>	Incremental BMI / empowering leadership (3)	Radical BMI / empowering leadership (4) <b>A, F</b>

In the stages subsequent to initial internationalization, the leadership style of three of the CEOs practicing directive leadership at the outset of the internationalization process seems to have evolved towards empowering leadership. Thus, a manager from firm D stated that

“When you manage to get into a foreign country, it is of course a big success. But it is also a challenge because you do not want to lose what you accomplished. So, you have to be careful how you manage things, how you develop the business there. And I think that the boss realized that too and that he also realized that he needed help. So, he started organizing these meetings with the managers and they discussed what to do next.”

It is also noteworthy that more substantial changes to the business model can be observed, as indicated by figure 3. As their international operations expanded, three out of five firms have undertaken substantial reconfiguration of the business model, whilst the three firms that have initially invested substantially in the reshuffling of their business model have stabilized their business model during the second stage of internationalization and have only proceeded with minor changes. The following verbatims illustrates the evolution from incremental to radical business model innovation.

“At first we went there with the parts that we were making and there was interest in our skills. Then the boss realized that we could do more, so he started discussing about new products we could make and propose to the foreign markets. For example we started developing precision engineering, because we thought we could have success with that.” (Engineer, firm B)

Significantly, as the figure 3 shows, the two empowering leaders maintained their leadership style throughout the entire internationalization process.

Figure 3. Business model innovation and leadership style in the subsequent stages of internationalization

		<i>Business model innovation</i>	
		<i>Incremental</i>	<i>Radical</i>
<i>Leadership</i>	<i>Directive</i>	Incremental BMI/directive leadership (1) <b>C, E</b>	Radical BMI / directive leadership (2) <b>H</b>
	<i>Empowering</i>	Incremental BMI / empowering leadership (3) <b>A, D, F</b>	Radical BMI / empowering leadership (4) <b>B, G</b>

The last section of our findings is related to internationalization performance outcomes. We asked respondents about their perception of internationalization performance of their firm, in the initial stages and in subsequent stages of internationalization. Specifically, we wanted their opinions on the sales and profits gained from international operations but also non-financial results of internationalization (such as gains in skill, knowledge, innovativeness). Because our research is qualitative and does not aim at measuring precisely a specific set of variables, but rather gaining understanding of an under-researched phenomenon, we asked our respondents to evaluate their satisfaction over internationalization as low, moderate or high. For each case we then compared the respondents' opinions on this issue and attributed the notation that was cited by the majority of the respondents. It is interesting to note that the respondents' views on this issue showed great convergence.

Table 2. Internationalization performance as perceived by the respondents.

<b>Firm</b>	<b>Internationalization early stage</b>	<b>Success of early stage</b>	<b>Internationalization later stage</b>	<b>Success of later stage</b>
<b>A</b>	Radical BMI + empowering leadership	Low	Incremental BMI + empowering leadership	Moderate
<b>B</b>	Incremental BMI/ + directive leadership	High	Radical BMI + empowering leadership	High
<b>C</b>	Incremental BMI + directive leadership	High	Incremental BMI + directive leadership	Moderate
<b>D</b>	Radical BMI + directive leadership	Moderate	Incremental BMI/empowering leadership	Moderate
<b>E</b>	Incremental BMI + directive leadership	High	Incremental BMI + directive leadership	Moderate
<b>F</b>	Radical BMI + empowering leadership	Low	Incremental BMI + empowering leadership	Moderate
<b>G</b>	Incremental BMI + directive leadership	High	Radical BMI + empowering leadership	High
<b>H</b>	Incremental BMI + directive leadership	High	Radical BMI + directive leadership	Moderate

Note: BMI stands for business model innovation

Table 2. shows the respondents' perception of internationalization performance for the initial and the subsequent stages of internationalization.

#### **4. Discussion**

Our findings suggest that SMEs follow different patterns in terms of business model innovation and leadership style during the internationalization process. These patterns can be observed in Figures 2 and 3.

In the initial stage of internationalization (Figure 2), the case that is the most represented in our sample is case 1 relative to directive leadership and incremental business model innovation. This case also emerges as the one exhibiting the greatest performance in the initial stages of internationalization. Although this finding might seem surprising and somewhat counterintuitive, it can be explained by the features of directive leadership and incremental business model innovation, as well as the contingency factors. Directive leadership is typified by a clear focus and determination (Hmieleski & Ensley, 2007) and this seems to play a role when a firm embarks on an internationalization journey. Specifically, when a firm lacks foreign market knowledge and experience, internationalization could be considered as a high-risk strategy and also a high-investment strategy (Williams et al., 2016). This could dissuade firms, especially SMEs to venture abroad, especially when their resources and investment capacity are declining, as is the case for the SMEs in our sample. In such a situation, engaging in wide discussions on whether or not to enter foreign markets and looking for support from the employees might delay foreign market entry or even prevent internationalization efforts, as reaching consensus could prove difficult, sometimes impossible. Directive leadership is associated with leader determination and setting up of non-negotiable goals (Pearce et al., 2003) and results in a clear focus for the firm – to enter foreign markets. Moreover, with

directive leadership, typically a single initiative is pursued at a time. Consequently, resources are not “wasted” on exploring too many initiatives, but are rather focused on a specific goal (Ensley et al., 2003). Our findings also show that directive leadership was accompanied by incremental business model innovation in five of the firms in our sample. Indeed, business model innovation in these companies mostly concerned the redefining of the target segments and rethinking the channels through which these segments would be reached. These processes can be characterized as “fine-tuning” (Winter & Szulanski, 2001) rather than as an important reconfiguration of the business model. As such, they do not require as much time as a major redesigning of the business model would require, allowing the firm to be ready for internationalization relatively quickly.

As shown in Figure 2, the second case that we observed in the initial stages of internationalization is depicted in box 3 and refers to radical business model innovation guided by empowering leadership. Respondents judged that the results of the early internationalization stage were rather low in this case. This finding is surprising as one would intuitively expect this case to generate the greatest internationalization outcomes, because the literature has shown empowering leadership to be associated with employee creativity and innovation (Hill & Bartol, 2016; Zhang & Bartol, 2010), and consequently, greater chances to attract foreign clients looking for innovative products or innovative solutions to their needs. The low internationalization performance of the two firms in our sample in box 3 can be explained by opposite arguments to those that explain the success of firms in box 1. Indeed, despite its numerous advantages, as widely documented in the literature (Martin et al., 2013; Sharma & Kirkman, 2015; Zhang & Bartol, 2010), empowering leadership has also been associated with a lack of focus, pursuit of too many initiatives and a lack of clear objectives (Hmieleski & Ensley, 2007). When environmental conditions are turbulent and hostile, as is the case for the SMEs in our sample, this lack of focus and determination can result in a

difficult and delayed entry to foreign markets. In particular, involving a wide range of employees in the decision making process can lead to a lack of agreement on whether internationalization should be pursued or not and in what way. Moreover, it could lead to entering foreign market with more than one initiative (product offering for example), which can lead to the dilution of firm's efforts and a lack of critical mass to penetrate a foreign market.

In addition to choosing empowering leadership, the two firms in our sample were also undertaking radical business model innovation. This is in line with empowering leadership, as the pursuit of different initiatives entails greater innovativeness and consequently a necessity to reconfigure the business model more substantially. This complicates foreign market entry even further.

Our findings therefore suggest that when firms need to enter foreign markets quickly, they will have greater success in doing so if they limit their efforts to incremental business model innovation and if they adopt a directive leadership style. However, does this strategy allow to increase foreign operations more significantly? Our findings imply that this is not the case. Indeed, several of the firms from our sample have evolved from directive to empowering leadership and from incremental to radical business model innovation in the later stages of internationalization and this move seems to have generated better results than keeping the same configuration of leadership style and business model innovation. This can be explained by the fact that as firms internationalize, there is a learning process that takes place (Johanson & Vahlne, 2009; Kogut & Zander, 1993) leading to a greater commitment to and understanding of internationalization among firm employees. The move towards a broader range of initiatives and towards a greater involvement of firm employees as depicted by box 3 can also be explained by the necessity to develop and expand operations abroad. In such a situation, the CEO needs to involve other people in the decision making process as the

complexity of tasks intensifies (Lorinkova et al., 2013). Our finding that in the early stage internationalization directive leadership outperforms empowering leadership is consistent with the findings by Lorinkova et al.'s (2013) on team performance who demonstrate that "teams led by a directive leader initially outperform those led by an empowering leader. However, despite lower early performance, teams led by an empowering leader experience higher performance improvement over time because of higher levels of team learning, coordination, empowerment, and mental development." (p. 579).

It is interesting to note that the two CEOs that pursue empowering leadership have not changed their leadership style throughout the internationalization process, contrary to some directive leaders who have evolved towards empowering leadership. We have two tentative explanations for this finding. The first is that empowering leadership is a more stable leadership style than directive leadership. The second is that it is too difficult for empowering leaders to radically change their relationship with followers to become directive leaders (in part because of a lack of legitimacy for a sudden adoption of directive leadership behavior) than it is for directive leaders to evolve towards empowering leaders.

Our findings also show that whilst empowering leadership and radical business model innovation have generated low performance in the initial stages of internationalization, the two firms in this case have stabilized their business model innovation in the subsequent stages of internationalization and have undertaken only minor changes to their business model. The results of the subsequent stage of internationalization are judged as "moderate" by the respondents, which might suggest that as the internationalization process unfolds, these firms might experience greater internationalization outcomes. While it is difficult to conclude that this would certainly be the case, our findings nevertheless suggest that empowering leadership seems to be a more viable option than directive leadership when the firm needs to develop its foreign operations and stabilize its position in foreign markets.

Figure 4. Evolution of business model innovation and leadership style during the internationalization process

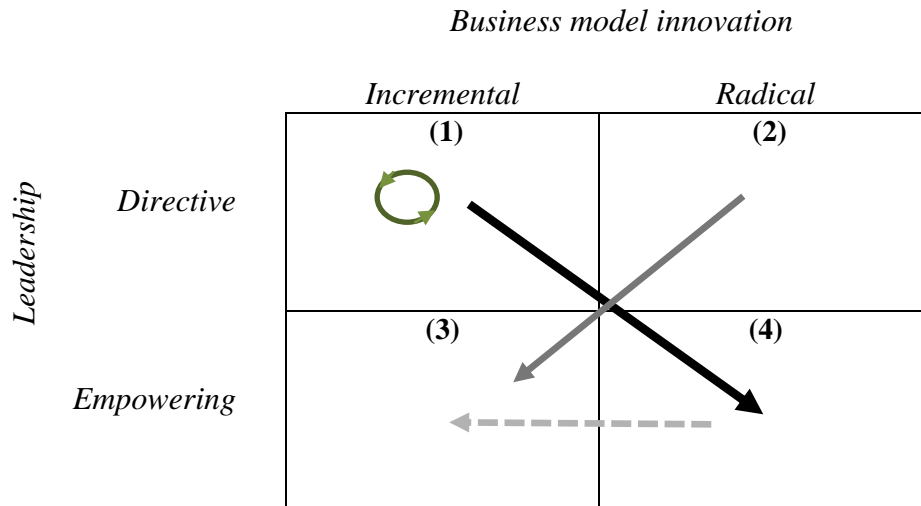


Figure 4 shows the evolution of business model innovation/leadership style in the companies in our sample throughout their internationalization. As this figure shows, there seem to be different paths that firms choose, yielding different results in terms of internationalization performance. It is particularly noteworthy that while directive leadership shows greater results in the initial stages of internationalization, empowering leadership emerges as more effective in the later internationalization stages. Moreover, as the figure 4 shows, sooner or later, internationalization entails substantial reconfiguration of the business model – in some firms this takes place from the very outset of the process, while in others it takes place later.



## **Conclusion**

Internationalization of small and medium-sized enterprises is beset by numerous obstacles (Chen et al., 2014), both the objective and those perceived by the owner-manager and the management team. These obstacles include lack of resources and competencies needed to venture abroad, lack of foreign market knowledge, pressures from the competitive environment, institutional and other conditions (Buckley, 1997; Lu & Bemish, 2001; Ketkar & Acs, 2013; Makhmadshoev et al., 2015; Cahen et al., 2016). They are particularly constraining when the firms have a long history of operating domestically and dealing exclusively with home-country clients and when the environment is characterized by rapid, unpredictable changes.

In this paper we studied the joint effect of business model innovation and CEO leadership style on the internationalization performance in the initial and the later stages of internationalization. Our findings show that while directive leadership and incremental business model innovation generate better results in the initial stages, empowering leadership seems to be more effective when the company expands its foreign operations. Moreover, we show that substantial reconfiguration of the business model needs to be undertaken at some point during the internationalization process.

Our contribution to the literature is twofold. Firstly, we add to the Internationalization Business literature by studying the joint effect of business model innovation and leadership on internationalization performance of SMEs. To the best of our knowledge, no prior study has investigated business model innovation in conjunction with leadership style, from the perspective of firm internationalization. Secondly, we add to the literature by building on perspectives from different literature streams and by combining them together in order to advance understanding of a complex phenomenon of firm internationalization.

Despite these contributions our study has also important limitations that indicate directions for future research. Firstly, our study was conducted in a specific setting – that of Japanese industrial clusters – and as such cannot be generalized across different settings, although we strongly believe that similar results could be found in other turbulent environments. Secondly, our research investigates internationalization in the context of a hostile, rapidly changing environment. It would be interesting to study the joint effect of business model innovation and entrepreneurial leadership on internationalization in other, more stable environmental conditions. Thirdly, our investigation is based on a study of eight SMEs. A quantitative survey on a great number of firms across different settings would allow to gain a more precise understanding of the relationship between business model innovation, leadership and firm internationalization.

Our study has managerial implications. Firstly, SME CEOs should be aware of the impact of their leadership style on internationalization outcomes. As indicated by our findings, directive leadership leads to quicker and more effective foreign market entry. However, when a firm aims at expanding foreign operations, empowering leadership should be preferred. Moreover, entering foreign markets sustainably requires radical innovation to the business model during the internationalization process. Overall, our study suggests that business model design and CEO leadership style have a considerable impact on internationalization performance and should therefore be considered with great attention.

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