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Toward a Process Framework of Business Model Innovation in the Global Context: Entrepreneurship-Enabled Dynamic Capability of Medium-Sized Multinational Enterprises

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TOWARD A PROCESS FRAMEWORK OF BUSINESS MODEL INNOVATION IN THE GLOBAL CONTEXT

Yangfeng CAO

TOWARD A PROCESS FRAMEWORK OF BUSINESS MODEL INNOVATION IN THE GLOBAL CONTEXT

ENTREPRENEURSHIP-ENABLED DYNAMIC CAPABILITY
OF MEDIUM-SIZED MULTINATIONAL ENTERPRISES

The PhD School of Economics and Management

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Toward a Process Framework of Business Model Innovation in the Global Context

*Entrepreneurship-Enabled Dynamic Capability of Medium-Sized
Multinational Enterprises*

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Denmark

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Yangfeng Cao

November, 2014

Abstract

This PhD dissertation focuses on business model innovation (BMI), which plays a central role in explaining firm performance and is viewed as a source of competitive advantage. A recent global survey of more than 4,000 senior executives by the *Economist Intelligence Unit* found that the majority (54%) favoured BMI over product or service innovation as a source of future competitive advantage. Hence, the research on BMI is a salient topic for strategic management and entrepreneurship studies because it is central to a firm's dynamic capability for novel value creation and novel value capture on a sustainable basis.

Prior studies have argued that a business model can be only effective if it is designed properly for a specific context. In this sense, the business models of multinational enterprises (MNEs) should differ from those of domestic firms. Specifically, owing to the large gaps or distances in the economic and institutional contexts between advanced and emerging economies, as two sides of the global divide, cross-divide entry by MNEs, either from an advanced economy into an emerging economy as a *top-down venture* or from an emerging economy to an advanced economy as a *bottom-up venture*, will depend heavily on the novel business model designed to match the host context on the other side of the global divide. This is particularly true in the case of entering the *mid-end market* as the mainstream in the host economy. In addition, owing to the internal contextual dimensions of corporate size and age, the key challenge to a top-down venture seems more acute for medium-sized MNEs (MMNEs) than both large and small MNEs (the latter is often referred to as 'born-global' firms). This is because MMNEs tend to have more limited resources than large MNEs, but less flexibility than small MNEs. Given the salience of the cross-divide context to MNEs as well as the paucity of research on MMNEs, this PhD dissertation focuses on how BMI occurs in the special context of cross-divide entry with a top-down venture for a mid-end market by MMNEs.

The purpose of this dissertation is to develop a macro-level process framework concerning how to enable BMI by MMNEs for cross-divide entry with a top-down venture using China as a context, and a micro-level process model to help MMNEs succeed in penetrating the mid-end market in an emerging economy. Based on this broad purpose, this dissertation focuses on three primary research questions:

- *How do the headquarters of MMNEs enable business model innovation at the subsidiary level in the special context of cross-divide entry with a top-down venture for a mid-end market?*
- *How do the subsidiaries of MMNEs enable business model innovation at the subsidiary level in the special context of cross-divide entry with a top-down venture for a mid-end market?*
- *What is the process framework for business model innovation in the special context of cross-divide entry with a top-down venture for a mid-end market?*

To answer the above three questions, I have adopted the method of a comparative and longitudinal case study to track the BMI processes of six Danish MMNEs operating in China since November 2011. The three research questions will be addressed in three specific papers, with each paper focusing on each respective question.

Paper 1 (Chapter 3) answers the first question and explores how MMNEs' headquarters (HQ) specifically enable BMI at the subsidiary level. The emergent framework in Paper 1 indicates that two enablers are salient: *entrepreneurial aspiration* and *flexibility*. At the HQ level, entrepreneurial aspiration and flexibility are two primary enablers of BMI (in terms of new value creation and new value capture) at the subsidiary level, with dynamic capability (in terms of sensing and seizing new opportunities) as the underlying mechanism. Further, Paper 1 also found that BMI can contribute to the initial enablers in a feedback loop. Hence, Paper 1 contributes to the literature of BMI, dynamic capability and MNE entrepreneurship by enriching all three research streams, especially the critical link between BMI and dynamic capability in the context of international strategic entrepreneurship (ISE).

Paper 2 (Chapter 4) answers the second question and explores how MMNEs' subsidiary specifically enables BMI at its own level. Paper 2 proposes a theoretical framework with *initiative-taking* and *improvising* as two primary enablers for BMI via dynamic capability as the core mediator, all at the subsidiary level in the context of a top-down venture as cross-divide entries from advanced markets to emerging markets. The findings of Paper 2 contribute to the emerging research stream of ISE.

Paper 3 (Chapter 5) answers the third question and explores the process of BMI by MMNEs. This paper has found three macro-level phases of BMI, i.e. *pre-BMI phase*, *BMI proper phase* and *post-BMI phase*, and four micro-level stages of BMI proper, i.e. *exploring* (related to the development of novel value proposition), *experimenting* (related to the development of product innovation), *constructing* (related to the development of novel revenue architecture) and *consolidating* (related to the development of novel cost architecture). In this paper, I have also identified the key drivers and barriers within and across the three macro-level phases and the four micro-level stages, especially from the perspectives of learning and unlearning as a duality.

The findings of this dissertation make several contributions with both theoretical and practical implications, especially around the central theme of ISE. First, the process framework of Paper 1 has found HQ's entrepreneurial aspiration by specifying its two core dimensions in terms of HQ's entrepreneurial mandate and priority for subsidiaries in the context of MMNEs. Similarly, it has identified HQ's entrepreneurial flexibility by specifying its two core dimensions in terms of HQ's strategic flexibility and operational flexibility in the context of MMNEs.

Second, the process framework of Paper 2 has found subsidiary's initiative-taking by specifying its two core dimensions in terms of the subsidiary's proactive commitment as the entrepreneurial motive and its innovative orientation as the entrepreneurial ability as well as subsidiary

improvisation by specifying its two core dimensions of thinking-acting convergence as the entrepreneurial motive, and emergent creativity as the entrepreneurial ability.

Third, the two process frameworks in Papers 1 and 2 have also found sensing capability (as one dimension of dynamic capability) by specifying its two core dimensions in terms of market research ability and R&D ability as well as seizing capability (as the other dimension of dynamic capability) by specifying its two core dimensions in terms of downstream and upstream value-chain design abilities. The two frameworks have also explored the mechanisms as enablers to facilitate BMI at both the HQ and subsidiary levels via dynamic capability.

Fourth, the process frameworks of Papers 1, 2, and 3 have found value creation (as one of the two dimensions of BMI) by specifying its two core dimensions in terms of novel value proposition and product innovation for customers as the primary stakeholder as well as value capture (as the other of the two dimensions of BMI) by specifying its two core dimensions in terms of novel revenue architecture and novel cost architecture for all non-customer stakeholders as the secondary stakeholders.

Finally, the process framework of Paper 3 has identified the macro-level process of BMI, with pre-BMI, BMI proper, and post-BMI forming the three phases, and the micro-level process of BMI proper, with exploring, experimenting, constructing and consolidating forming its four stages. It is worth noting that different drivers and barriers are associated with the three macro-level phases and the four micro-level stages, all with unique implications for research and practice.

Resume

Denne ph.d.-afhandling sætter fokus på innovation af forretningsmodeller (BMI), som spiller en central rolle i at forklare virksomheders performance og som ses som en kilde til konkurrencemæssige fordele. En nylig verdensomspændende undersøgelse af mere end 4.000 topledere fra Economist Intelligence Unit har konstateret, at hovedparten (54%) foretrak BMI fremfor produkt- eller serviceinnovation som en kilde til fremtidige konkurrencemæssige fordele. Forskning i BMI er derfor et oplagt emne inden for strategisk ledelse og iværksættelse, da det er centralt for en virksomheds dynamiske kapacitet til at skabe ny værdi og værdi capture på et bæredygtigt grundlag.

Tidligere undersøgelser har argumenteret for, at en forretningsmodel kun kan være effektiv, hvis den er korrekt konstrueret i forhold til en bestemt kontekst. I den forstand bør forretningsmodeller af multinationale virksomheder (MNE) adskille sig fra indenlandske virksomheder. På grund af de store afstande i de økonomiske og institutionelle sammenhænge mellem udviklede og nye økonomier, som to sider af den globale kløft, vil indførelse ved multinationale selskaber på tværs af den globale kløft, enten fra en avanceret økonomi til en ny økonomi som en top-down venture eller fra en vækstøkonomi til en avanceret økonomi som en bottom-up venture, i høj grad afhænge af, om den nye forretningsmodel er designet til at passe ind i værtskulturen/kontekst på den anden side af den globale kløft. Dette gælder især i tilfælde, hvor midtersegmentet i markedet indføres som mainstream i værtsøkonomien. Hertil kommer, at på grund af de interne kontekstuelle dimensioner af virksomhedernes størrelse og alder, virker den største udfordring for en top-down venture mere presserende for mellemstore multinationale virksomheder (MMNEs) end både store og små multinationale virksomheder (sidstnævnte er ofte benævnt "born-global" virksomheder). Dette skyldes, at MMNEs ofte har mere begrænsede ressourcer end store multinationale virksomheder og mindre fleksibilitet end små multinationale virksomheder. I kraft af cross-kløft kontekstens betydning for multinationale virksomheder samt manglen på forskning i MMNEs, vil denne ph.d.-afhandling fokusere på hvordan BMI sker i den særlige kontekst på cross-kløft indførelse med en top-down venture for en midtersegmentet i markedet af MMNEs. iii

Formålet med denne afhandling er at udvikle en procesramme på makroniveau for, hvordan man aktiverer BMI ved MMNEs for cross-kløft indførelse med en top-down venture med Kina som kontekstseksempel, og at udvikle en procesmodel på mikroniveau til at hjælpe MMNEs med at indføre midt-enden af markedet i en ny vækstøkonomi. Med udgangspunkt i dette omfattende formål, fokuserer afhandlingen på tre primære forskningsspørgsmål:

- *Hvordan aktiverer moderselskaber for MMNEs BMI på datterselskabsniveau i den særlige sammenhæng på tværs af kløften indførelse med en top-down venture for midtersegmentet i markedet?*
- *Hvordan aktiverer datterselskaber af MMNEs BMI på datterselskabet niveau i den særlige cross-kløfte indførelse sammenhæng post med en top-down venture for midtersegmentet i markedet?*
- *Hvad er procesramme til BMI i den særlige cross-kløfte indførelse sammenhæng med en top-down venture for midtersegmentet i markedet?*

For at besvare de ovennævnte tre spørgsmål, har jeg anvendt et sammenlignende og langstrakt casestudie som metode til at spore BMI-processer i seks danske MMNEs, som har drevet forretning i Kina siden november 2011. De tre forskningsspørgsmål vil blive behandlet i tre artikler, som hver især omhandler et af de tre spørgsmål.

Artikel 1 (kapitel 3) besvarer det første spørgsmål og undersøger, hvordan MMNEs moderselskaber (HQ) specifikt faciliterer BMI på datterselskabsniveau. Den fremspirende ramme i Artikel 1 indikerer, at to katalysatorer er særligt vigtige: iværksætter-aspiration og fleksibilitet. På HQ-niveau er iværksætter aspiration og fleksibilitet de to primære formidlere af BMI (i form af ny værdiskabelse og ny value capture) på datterselskabsniveau, med dynamisk kapabilitet som den underliggende mekanisme i form af evnen til at fornemme og kunne gribe nye muligheder. Herudover konkluderer Artikel 1, at BMI kan bidrage til de oprindelige katalysatorer i en ”feedback-loop”. Derfor bidrager Artikel 1 til litteraturen om BMI, dynamisk kapabilitet, og MNE-entreprenørskab ved at berige alle tre forskningsretninger, især den centrale sammenhæng mellem BMI og dynamisk kapabilitet i forbindelse med international strategisk entreprenørskab (ISE). iv

Artikel 2 (kapitel 4) besvarer det andet spørgsmål og undersøger, hvordan MMNEs datterselskaber specifikt faciliterer BMI på sit eget niveau. Artikel 2 udarbejder en teoretisk ramme med initiativtagen og improvisation som to primære katalysatorer for BMI via dynamisk kapabilitet som

kernens mægler, alle på datterselskabsniveau i forbindelse med en top-down venture som cross-kløft firmaer fra udviklede markeder til nye vækstmarkeder. Resultaterne af Artikel 2 bidrager til den nye forskningsretning inden for ISE.

Artikel 3 (kapitel 5) besvarer det tredje spørgsmål og udforsker processen med BMI ved MMNEs. Denne artikel identificerer tre faser af BMI på makroniveau, dvs. præ-BMI fase, BMI fase, og post-BMI fase og fire stadier af BMI på mikroniveau, dvs. udforskningsstadiet (relateret til udviklingen af nye værdibidrag), eksperimentalstadiet (relateret til udviklingen af produktinnovation), konstruktionsstadiet (relateret til udviklingen af nye indtægter arkitektur), og konsolideringsstadiet (relateret til udviklingen af ny omkostningsarkitektur). I artiklen har jeg desuden identificeret de vigtigste drivkræfter og barrierer inden for og på tværs af de tre makroniveaufaser og de fire mikroniveau stadier, især med udgangspunkt i læring og aflæring som dualitet.

Resultaterne af denne afhandling yder adskillige bidrag bestående af både teoretiske og praktiske implikationer, især omkring ISE som det centrale tema.

For det første har procesrammen af Artikel 1 identificeret HQ på iværksætterområdet aspiration ved at angive sine to centrale dimensioner i form af HQ på iværksætterområdet mandat og prioritet for datterselskaber i forbindelse med MMNEs. Ligeledes har artiklen identificeret HQ på iværksætterområdet fleksibilitet ved at angive sine to centrale dimensioner i form af HQs strategiske fleksibilitet og operationelle fleksibilitet i forbindelse med MMNEs.

For det andet har procesrammen af artikel 2 identificeret datterselskabets initiativtagen ved at angive dets to centrale dimensioner i form af datterselskabets proaktive engagement som iværksættelsesmotiv og dets innovative orientering som den entreprenante evne samt datterselskabets improvisation ved at angive sine to centrale dimensioner af konvergens af tanke og handling som iværksættelsesmotiv, og fremspirende kreativitet som entreprenørskabsevnen.

For det tredje har de to procesrammer i Artikel 1 og 2 også identificeret sensing capability (som en dimension af dynamisk kapabilitet) ved at angive dens to centrale dimensioner i form af markedsundersøgelsesevne og R&D-evne samt evnen til at gribe (som den anden dimension af dynamisk kapabilitet) ved at angive sine to centrale dimensioner i form af downstream og upstream værdi-kæde designevner. De to rammer har også undersøgt de mekanismer som katalysatorer til at lette BMI på både HQ- og datterselskabsniveau via dynamisk kapabilitet.

For det fjerde har procesrammen for Artikel 1, 2 og 3 identificeret værdiskabelse (som en af de to dimensioner af BMI) ved at angive dens to centrale dimensioner i form af nye værdibidrag og produktinnovation for kunder som primær-interessenter samt som value capture (som den anden af de to dimensioner af BMI) ved at angive sine to centrale dimensioner i form af ny indtægtsarkitektur og ny omkostningsarkitektur for alle interessenter uden for kundekredsen som de sekundære interessenter.

Afslutningsvis har procesrammen af Artikel 3 identificeret BMI på makroprocesniveau, hvor pre-BMI, BMI, og post-BMI danner de tre faser, samt på mikroprocesniveau, de 4 faser af BMI er udforskningsstadiet, eksperimentalstadiet, konstruktionsstadiet, og konsolideringsstadiet. Det er værd at bemærke, at forskellige drivkræfter og barrierer er forbundet med de tre overordnede faser og de fire mikroniveau stadier, alle med unikke konsekvenser for både forskning og for praksis.

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Chapter 1: Introduction

The purpose of Chapter 1 is to introduce the background of the research project, primary purpose, research questions, methodological design, dissertation structure, empirical findings and critical contributions. The topical domain of this dissertation focuses on three issues: business model innovation (BMI), dynamic capability and international strategic entrepreneurship (ISE). In this chapter, the above three issues will be described in detail to outline the overall scope of this dissertation. First, I discuss the background of my PhD project and then present the primary purpose, research questions and methodological design for this dissertation. Finally, I introduce the structure and discuss the empirical findings and critical contributions of this PhD dissertation.

1.1 Background of the PhD Project

The Suitable for Growth (SfG) project is a joint effort by the Danish Industry Foundation, Copenhagen Business School and the Universe Foundation. The project seeks to strengthen the competitiveness of Danish industrial exporters by demonstrating a new approach to innovation targeting middle class customers in emerging markets such as China.

The typical international market approach of companies from developed countries like Denmark has been to sell the same product internationally with minor local adaptations. This approach might work well when selling to other developed markets with similar customers and to some degree to the high end of emerging markets. However, recently, major companies such as GE (Immelt et al., 2009) have recognised that this approach might not be a working strategy to conquer the fast growing mid-end (and base-end) markets in emerging economies. Therefore, for multinational enterprises (MNEs), there are many big challenges to creating and delivering value to customers in emerging markets. A business model defines how an enterprise creates and delivers value to customers and then converts payments received to profits (Teece, 2010). Business models can play a central role in explaining firm performance. Scholars contend that a business model can be a

source of competitive advantage that is distinct from the firm's product market position (Christensen, 2001). A good business model yields value propositions that are compelling to customers, achieves advantageous cost and risk structures, and enables significant value capture by the business that generates and delivers products and services (Teece, 2010). In sum, the study of business models is an important topic for strategic management research because business models affect a firm's possibilities for value creation and value capture (Amit and Zott, 2001).

Past research has primarily focused on the top-end segment of emerging markets at the expense of the mid-end and low-end segments. However, the mid-end segment may be the most attractive in emerging markets because that segment is growing the fastest and is expected to be the largest in the future. It is also because such a segment is wide open to the competition between the global incumbents and local latecomers based in the emerging markets, with no favoured winners for either group. Today, leaders of multinational corporations have a similarly lucrative opportunity on a much larger playing field: a global middle-class market (Tse, Russo and Haddock, 2011).

Further, compared to giant multinationals like GE, Siemens and Unilever, medium-sized multinational enterprises (MMNEs) based in Denmark lack the slack resources to design their business models. Denmark has a large population of MMNEs that face a particular mid-end market challenge, sandwiched between giant multinational firms and strong local competitors in China. BMI is vitally important and yet very difficult to achieve.

How do Danish MMNEs develop business models that create new markets and obtain competitive advantages, even in the face of high uncertainty in China? I have been unable to find any case studies on the BMI efforts of the MMNEs and international firms for the emerging economies' mid-end market. Except for a few case studies, there is very little knowledge about how MMNEs can innovate their business models to penetrate the middle class markets in the emerging economies and little knowledge about how to leverage that to gain a global market share. The study

of business models is an interdisciplinary topic which has been neglected; despite its obvious importance, it lacks an intellectual home in the social sciences or business studies (Teece, 2010).

Based on the above analysis, this study focuses on BMI and competitive advantages using a longitudinal case study. The research goal of the study is to explore how MMNEs can create value and competitive advantages through BMI in the middle class market in China.

1.2 Primary Purpose and Research Design

1.2.1 Primary Purpose and Research Questions

The business model is defined as a firm-specific, yet open, holistic system of well-coordinated functional activities on the dual dimensions of *resource configuration* (activity content) and *task coordination* (activity process) for the dual purposes of *value creation* and *value capture* (cf. Amit & Zott, 2012; Li, 2010; Zott et al., 2011). Based on this definition, business model innovation is defined as a higher-order innovation compared to lower-order product, service and process innovations (cf. Amit & Zott, 2012; Collis, 1994; Mitchell & Coles, 2003; Zott et al., 2011). Further, as a higher-order innovation, BMI must always occur at the system level in terms of coordinated innovations in at least two functional areas, which result in the change in one or both of the dual dimensions (i.e. resource configuration and task coordination) for the dual purposes (i.e. value creation and value capture).

A business model can be only effective if it is designed properly for a specific context. In that sense, the business model of MNEs is expected to differ from that of domestic firms (Ricart et al., 2004). Specifically, owing to the large gaps or distances in the economic and institutional contexts between advanced and emerging economies, successful ventures by MNEs from advanced economies into emerging economies – which I refer to as *top-down ventures* engaged by the local subsidiaries of MNEs – depend heavily on the novel business model designed to match the context of the emerging economies (Hansen, Petersen and Wad, 2011; Khanna and Palepu, 2010).

Additionally, owing to the internal contextual dimensions of corporate size and age, the key challenge to top-down ventures seems more acute for medium-sized MNEs than both large and small MNEs (the latter is often referred to as ‘born-globals’, Oviatt and McDougall, 2005). This is because medium-sized MNEs tend to have fewer resources than large MNEs but less flexibility than small MNEs (cf. Aspara and Tikkanen, 2013; Zahra, Neubaum and Huse, 2000). Given the accelerating trend of globalisation, the business model of MNEs should be the focus of research on BMI (Tallman, 2014). However, there is little research on BMI in the context of MNEs, including the role of HQ and the subsidiary in this process (cf. Aspara, Lamberg, Laukia and Tikkanen, 2011; Autio, George and Alexy, 2011). As a result, little information is available about how BMI is achieved in the global context, especially in the case of top-down ventures by medium-sized MNEs. Given the salience of the global context to MNEs and the paucity of research on medium-sized MNEs, this research studies how BMI occurs in the global context in the case of medium-sized MNEs. In sum, to close the gap in the literature, the primary purpose of this PhD dissertation is to *develop an integrative process framework about how to penetrate mid-end markets in emerging economies using China as a case and to develop a viable operating model that can help MMNEs develop their novel business models to penetrate such mid-end markets.*

Based on this primary purpose of the PhD dissertation, three special research questions aim to close gaps in prior literature.

The first salient contextual issue is the specific role of HQ in the process of BMI at the subsidiary level, which boils down to the central issue of the HQ-subsidiary relationship. This issue remains controversial with the debate over HQ’s centralised or decentralised policy toward subsidiaries. Some scholars classify the role of HQ into ‘entrepreneurial’ (value creating) and ‘administrative’ (loss preventing) (e.g. Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006). It seems difficult for HQ to play both entrepreneurial (value-creating) and administrative (loss-preventing) roles at the

same time; thus, HQ is often advised to focus on only one of the two roles (Ciabuschi et al., 2012). Other scholars identify two opposite views: (1) rationality perspective and (2) ignorance perspective (Ciabuschi et al., 2011). The rationality perspective posits that the involvement of HQ in the innovation at the subsidiary level should match the extent of HQ's base of knowledge about the subsidiary's operating context. In contrast, the ignorance perspective assumes that HQ lacks the relevant knowledge so that HQ is likely to be 'groping in the dark', and is thus unable to be effective. However, prior research on the HQ-subsidary relationship often ignores the impact of core contingents, including the external contextual factors, such as the gaps or distances between home and host contexts (e.g. Harzing and Noorderhaven, 2006), and the internal contextual factors, such as the size and age of the MNEs (cf. Autio et al., 2011; Zahra et al., 2000). Hence, the role of HQ, especially its broad policies for subsidiaries, is a salient contextual issue for the study of BMI at the subsidiary level. Based on the above analysis, the first question is:

- *How do the headquarters of MMNEs enable business model innovation at the subsidiary level in the special context of cross-divide entry with a top-down venture for a mid-end market?*

The second salient contextual issue is the specific role of subsidiaries in the process of BMI at the subsidiary level. An MMNE's subsidiary is defined as an operational unit owned by the HQ of the MMNE and located outside the HQ's home country. There is no doubt that a business model at the subsidiary level can be only effective when it is a good fit for the specific local context. Innovating a business model requires a series of entrepreneurial activities, defined as subsidiary initiatives, which can be framed as a primary prerequisite for subsidiaries to develop (Birkinshaw, 1997). Subsidiaries often engage in such activities independent of their given mandates from HQ, and such a bottom-up process is one of multiple mechanisms by which local elements find their way into the overall strategies of HQ. Since it tends to be 'domain-developing' with the role of the subsidiary

extending beyond its current mandate, subsidiary initiatives challenge the current business model of HQ, especially in the context of a top-down venture for a mid-end market. Even though the collaborative relationship between the HQ and the subsidiary is important for BMI, current literature on the HQ-subsidiary relationship often focuses on the negative effect in terms of the conflict between the HQ and the subsidiary (see Paterson & Brock, 2002 for a review); thus, some controversial conclusions remain. Based on the above analysis, the second question is:

- *How do the subsidiaries of MMNEs enable business model innovation at the subsidiary level in the special context of cross-divide entry with a top-down venture for a mid-end market?*

The third salient issue is how MMNEs approach BMI or design a new business model. In this area, some scholars take a static approach and view a business model design as a blueprint for the coherence between core business model components (Demil and Lecocq, 2010). Other scholars take a transformational approach and contend that the business model takes shape through a process of experimentation, adaptation and learning (McGrath, 2010; Sosna, Trevinyo-Rodríguez, and Lecocq, 2010; Aspara, Lamberg, Laukia, and Tikkanen. 2011), which might differ for different organisations in different competitive landscapes (Zott and Amit, 2011). However, little research focuses on how established companies, especially established MMNEs, innovate their business models. In sum, for established MMNEs, BMI rarely happens automatically, and it requires the special knowledge and capabilities to manage the ambiguity and uncertainty in the process. Based on the above analysis, the third question is:

- *What is the process framework for business model innovation in the special context of cross-divide entry with a top-down venture for a mid-end market?*

1.2.2 Methodological Design

Because of the limited research and theory on the BMI process in the literature, it is more productive to utilise a case study method strategy (Eisenhardt, 1989) to discover an innovation process theory from data systematically obtained from longitudinal research than to test existing theories logically deduced from a priori assumptions that often do not fit or are not based on concrete particulars of the phenomena to be explained (Van de Ven, Angle, 2000).

My research uses an inductive theory-building approach with multiple embedded cases for longitudinal and comparative studies (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). I use the cases as multiple ‘experiments’, thereby employing the replication logic. In order to develop richer findings, I use an embedded design (Yin, 1994). The search builds on principles of action research (Reason and Bradbury, 2002) and process research (Van De Ven et al., 1999).

Six MMNEs from Denmark have a strategy to penetrate the mid-end markets (create new markets) through designing (or innovating) a new business model in China. I analyse the six firms’ longitudinal data to determine how and why the BMI developed over time and what paths lead to successful and unsuccessful outcomes.

Concerning data collection, multiple methods are used to conduct the longitudinal study of each BM innovation. I rely on several data sources, including those of interviews, follow-up emails and phone conversations as well as archival data, such as internal documents, press releases, websites and news articles. Triangulation of data sources will be followed to provide more accurate information to improve the robustness of the resulting theory (Anand, Gardner and Morris, 2007).

1.3 Structure, Findings and Contributions

Figure 1.1 shows that the overall structure of the dissertation consists of six chapters. In the introduction chapter, I introduce the research background, project, topic and research questions, methodology, structure and its key findings in the area of BMI. In Chapter 2, I discuss the methodology. Since the three research questions are ‘how’ questions with the aim of ‘understanding’

and ‘exploration’ rather than ‘explanation’, the case study strategy will be adopted with the purpose of theory building (Eisenhardt, 1989; Yin, 2008). In Chapter 2, I introduce the case selection, data collection, data analysis and theory building process in detail.

Following the methodological discussions are three chapters (Chapters 3–5), which are three largely independent papers. This paper-based PhD dissertation contains three papers which seek to contribute to the understanding of the BMI process in emerging markets by focusing on the three specific questions. All three papers have been presented in conferences and two have been submitted to academic journals and published as working papers at Copenhagen Business School.

Chapter 3 (Paper 1) answers the first question of this dissertation, i.e. how does the HQ of an MMNE enable BMI at the subsidiary level. In Paper 1, I have developed the emergent framework with the entrepreneurial aspiration and flexibility at the HQ level as two core enablers of BMI (in terms of novel value creation and novel value capture) at the subsidiary level, with dynamic capability (in terms of sensing and seizing capabilities) as the mediating mechanism. Further, I have also found that BMI can contribute to the initial enablers in a feedback loop. Hence, Chapter 3 contributes to the literature of BMI and dynamic capability by enriching both research streams, especially the critical link between BMI and dynamic capability in the special context of ISE.

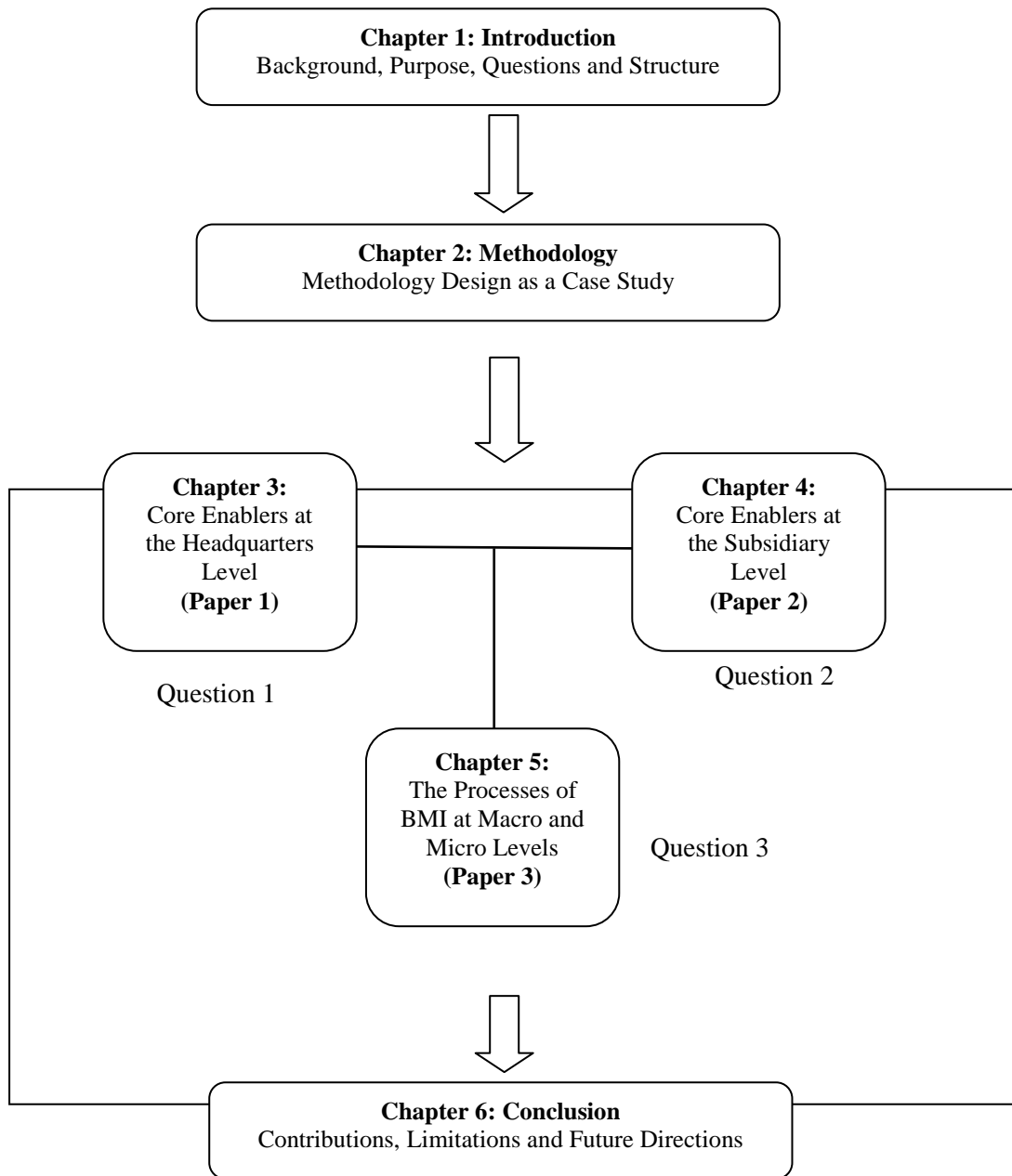
Chapter 4 (Paper 2) answers the second research question of this dissertation, i.e. how does the subsidiary of an MMNE enable BMI at the subsidiary level. Chapter 4 proposes a process framework with *initiative-taking* and *improvising* as two core enablers of BMI via dynamic capability as the core mediator, all at the subsidiary level in the context of cross-divide entry with a top-down venture from an advanced economy to an emerging economy for a mid-end market. The findings of Chapter 4 contribute to the emerging research stream on ISE.

The purpose of Chapter 5 (Paper 3) is to explore the macro-level process framework and the micro-level process model of BMI by identifying the drivers and barriers associated with the macro-

level process and the micro-level process to explain how MMNEs from advanced economies can design new business models for their cross-divide entries with top-down ventures for mid-end markets in emerging economies. In Paper 3, by using a comparative and longitudinal case study method, I have developed a macro-level process framework with three phases – pre-BMI, BMI proper and post-BMI phases – and a micro-level process model with four stages – exploring, experimenting, constructing and consolidating. I have also identified the key drivers and barriers in each of the three phases and four stages. This process framework with an embedded process model captures the core of BMI.

Chapter 6 summarises the major findings of this dissertation to address the critical contributions of the research questions. This chapter also discusses the theoretical and practical implications of the findings and contributions of this dissertation and the limitations. Finally, I conclude with my suggestions about future research directions.

Figure 1.1 Structure of this Dissertation



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Chapter 2: Project, Methodology and Cases

In this chapter, I will briefly describe the basic situation of the project and mainly discuss the methodology used in this PhD dissertation, which includes a case study method, case selection, data collection, data analysis and the theory building process.

2.1 Introduction to Suitable for Growth (SfG) Project

Larger Danish companies seem to be successful in addressing the Chinese mid-end market, but to date, only a few mid-sized Danish companies have managed to build profitable and sustainable positions in this segment. Danish medium-sized multinational enterprises (MMNEs) still have difficulty truly exploiting the unique and historical business opportunities the Chinese market presents. Instead, mid-sized companies tend to invest their resources in the more familiar Western markets, thus missing out on the opportunity to grow in emerging markets, even as the developed markets are in decline or stagnating. This is worrisome for the individual companies, but it is also critical to Danish society, since the large number of mid-sized companies in Denmark constitute the backbone of the national economy.

Consequently, the Danish Industry Foundation and the Universe Foundation joined forces in the Suitable for Growth (SfG) project and set out to support and study six Danish MMNEs during a three-year period, as each has tried to develop new offerings suitable for targeting mid-end market customers in China. (Suitable products or solutions for the Chinese mid-end market have an affordable price and special functionalities adapted to the local market, based on deep customer insights.) The aim of the SfG project has been to learn from the specific experiences of the participating case companies, with the purpose of devising a general approach to success for Danish companies in the Chinese mid-end market that could increase the competitiveness of Danish industry and create more jobs in Denmark.

During the business development process, I have been studying the progress of the participants' business projects, to identify the key factors determining the success – or failure – of each individual project, as well as the commonalities and differences among the projects. The SfG project has followed the participating companies through interviews with top management at the Danish headquarters and with the project teams at the subsidiaries, during educational sessions in China, and through progress reports and meetings with the project teams. In this project, I try to explore how SMEs create value and competitive advantages through BMI on the middle class market in China. There are three specific research questions:

- *How do the headquarters of MMNEs enable business model innovation at the subsidiary level?*
- *How do the subsidiaries of MMNEs enable business model innovation at the subsidiary level?*
- *What is the process framework for designing a new business model that can penetrate the mid-end market in emerging markets such as China?*

Overall, my main goal in the SfG research project is to develop a generic framework for penetrating mid-end markets in emerging economies using China as a case study, and to develop some viable operating models that can help small international Danish companies develop their own business strategies to penetrate such mid-end markets.

2.2 Case Study Method and Conceptual Framework

2.2.1 Case Study Method

A case study is defined as a research strategy that focuses on understanding the dynamics present within single settings by scholars who have (1) developed a typology of case study designs; (2) described the replication logic, which is essential to multiple case analysis; and (3) used case studies to develop theories (Yin, 1994, 2009; Eisenhardt, 1989, 1991; Eisenhardt and Granbner, 2007). The

different forms of the research questions need different research strategies. There are two kinds of research questions that could be better addressed by a case study method. The first situation is where no existing theory offers a feasible answer to the research questions. As Eisenhardt and Granbner (2007: 26) argued,

‘...when using theory building from cases as a research strategy, researchers also must take the added step of justifying why the research question is better addressed by theory-building rather than theory-testing research. ..., A key response to this challenge is to clarify why the research question is significant, and why there is no existing theory that offers a feasible answer’.

Secondly, *how* and *why* questions can be answered by using case study research, whereas quantitative questions such as *how many* and *how much* are better answered using quantitative methods such as surveys and archival analysis (Yin, 2009; Muhdi, Daiber, 2008). The reason is that *‘how’* and *‘why’* questions usually aim to explain complex processes and events that can hardly be examined by hypothesising simple causal relations (Yin, 2009).

According to the number of cases, case studies can be respectively classified into single and multiple case studies. Multiple cases are viewed as a powerful means to create theory because ‘they permit replication and extension among individual cases. Replication simply means that individual cases can be used for independent corroboration of specific proposition. This corroboration helps researchers to perceive patterns more easily and to eliminate chance associations. Extension refers to the use of multiple cases to develop more elaborate theory’ (Eisenhardt, 1991: 620). In a multiple case study, each case serves as a distinct experiment that stands alone as an analytic unit: ‘Like a series of related laboratory experiments, multiple cases are discrete experiments that serve as replications, contrasts, and extensions to the emerging theory’ (Eisenhardt, Granbner 2007: 25). Therefore, compared to a single case study, multiple cases are a powerful means of creating theory

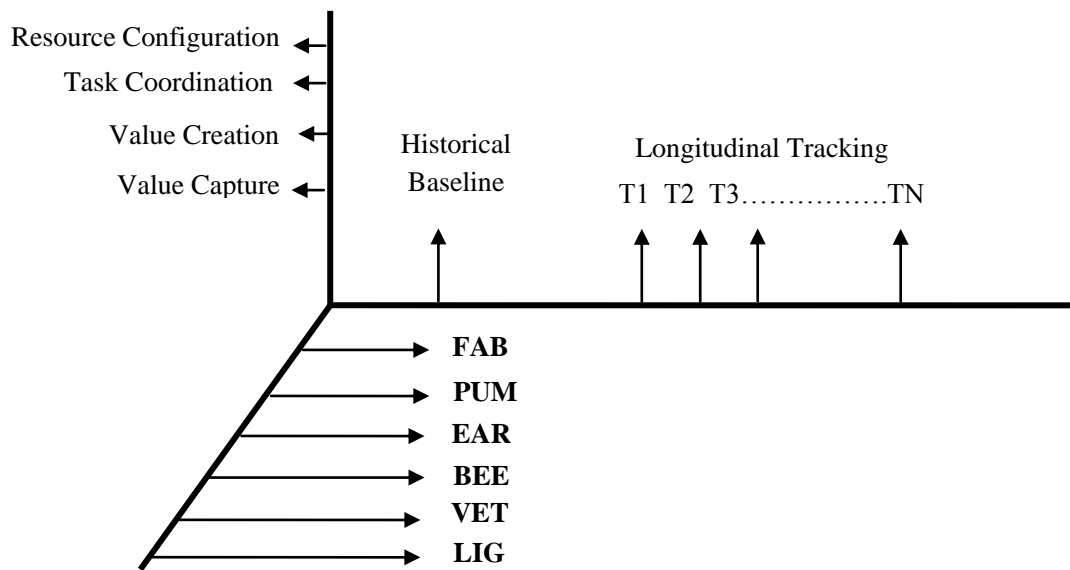
because they permit replication and extension among individual cases and involve multiple sources of evidence from more than one case.

From the research questions of this dissertation, my goal is to explore the mechanism of BMI, which describes how Danish MMNEs can penetrate the mid-end market in China. Because of the limited research and theories on the BMI process in the literature, it is more productive to undertake a multiple case study (Eisenhardt, 1989; Eisenhardt, Granbner, 2007) to discover an innovation process theory from data systematically obtained from longitudinal research than to test existing theories logically deduced from a priori assumptions that often do not fit or are not based on concrete particulars of the phenomena to be explained (Van de Ven and Angle, 2000). With the aim of theory expanding and building in this dissertation, I will use an inductive theory-building approach with multiple embedded cases for longitudinal and comparative studies to develop theoretical constructs and formulate frameworks and propositions.

2.2.2 The Core Conceptual Framework

This research study examines the BMI process using a longitudinal case study. In order to collect data over time and compare and integrate findings across all six BMI projects in the six Danish firms, following up the Minnesota Innovation Research Program (MIRP)¹, I developed a consistent conceptual framework (Figure 2.1) that would ‘enable rigorous comparisons to be made across settings and types of innovations and could therefore provide the means to work toward development of a general process theory of innovation’ (Van de Ven and Angle, 2000: 8). Without such a common guiding framework, findings from individual BMI studies are difficult to compare.

Figure 2.1 The core conceptual framework to study BMI over time



Source: The figure was revised from Van De Ven et al. (2000)

The conceptual framework centres on four basic concepts: resource configuration, task coordination, value creation and value capture. I selected these four elements because they are central factors of the business model and its innovation. The business model is defined as a firm-specific, yet open, holistic system of well-coordinated functional activities on the dual dimensions of *resource configuration* (activity content) and *task coordination* (activity process) for the dual purposes of *value creation* and *value capture* (cf. Amit & Zott, 2012; Li, 2010; Zott et al., 2011). Based on this definition of a business model, I refer to business model innovation as a higher-order innovation compared to lower-order product, service and process innovations (cf. Amit & Zott, 2012; Collis, 1994; Mitchell & Coles, 2003; Zott et al., 2011). Further, as a higher-order innovation, BMI must always occur at the system level in terms of coordinated innovations in at least two functional areas, which result in the change in one or both of the dual dimensions (i.e. resource configuration and task coordination) for the dual purposes (i.e. value creation and value capture). The process of BMI consists of *resource configuration* and *task coordination* to achieve *value*

creation (novel value proposition and product innovation) and *value capture* (novel cost architecture and novel revenue architecture). A significant change in these concepts represents an *event*. I recorded the key *events* throughout the BMI process in six different firms.

During fall and winter 2011, baseline data were obtained on each firm. The baseline information included each firm's history, willingness to design a new business model for the Chinese mid-end market, the strategic goal of the business model project and each firm's commitment to its new innovation projects. The baseline information was useful for researchers to understand the firm's situation and context in which the new business model would be developed.

After many discussions with others researchers involved in the SfG project, I developed specific data collection instruments during winter 2011, which consisted of interviews documents and questionnaires to enable tracking of the BMIs as they developed over time in different firms. Longitudinal tracking of the innovations began in December 2014. Data collection intervals ranged from two to three months. A more detailed description is presented in the section of data collection.

2.3 Case Selection and Description

The selection of cases is an important aspect of building theory from case studies. According to Eisenhardt (1989), theory-building researchers can use a theoretical sampling approach to choose cases which are likely to replicate or extend the emergent theory. The SfG project focuses on medium-sized MNEs based in developed economics but operating in emerging economies as a top-down venture. According to Simon (2009), MMNEs play a critical role in the global competition often as the hidden champions, but the actual internationalisation process of such MNEs has attracted little academic attention, thus indicating an urgent need for research (Keupp and Gassmann, 2009).

Five criteria were used for selecting the cases: (1) mid-sized Danish companies with a global turnover of DKK250–1,500 million, (2) experience with international business activities, (3)

possess a local operation in China, (4) have China as a strategically critical market and (5) demonstrate the willingness to invest time and resources in this project to develop a new business model (BMI project). At last, six Danish firms were chosen to participate in the project.

From May to August 2011, the project team conducted a series of semi-structured interviews within each firm before the firm joined the project. The interviews were conducted with CEOs at HQ. The purpose of the initial interviews was to learn about the participating firm's strategy for China and to check the firm's commitment to the BMI project. The interviewees were asked to describe not only their goals and plans of their BMI projects but also the challenges and barriers. All six firms were committed to the special BMI for the Chinese mid-end markets across six distinctive industries.

All sample firms had long corporate histories; four firms were over 100 years old, and the youngest company was established in the 1980s. The companies were from six different industries: fabric, pumps, medical equipment, beverage equipment, veterinary equipment and lighting equipment (see Table 2.1 for more details). All six firms established their subsidiaries in China between 1994 and 2006.

Apart from the inclusion criteria, the six firms had several common characteristics: (1) they belonged to the group of Danish mid-sized international companies, where resources are relatively scarce and limited; (2) they serve high-end niche-markets in their existing mature markets, where they are successfully delivering high-value, quality products to their customers; (3) they operate in the B2B market, which means they tend to have limited access to the end-users of their offerings; (4) they consider cost as one of their main challenges in targeting the Chinese mid-end market; and (5) they experience increasing pressure from local Chinese companies to deliver their products at much lower prices.

2.4 Data Collection

According to Yin (1994), although the terms qualitative and case study are often used interchangeably, case study research can involve qualitative data only, quantitative only, or both.

Eisenhardt (1989: 538) described this combination as follows:

“[...] the combination of data types can be highly synergistic. Quantitative evidence can indicate relationships which may not be salient to the researcher and can keep researchers from being carried away by vivid, but false, impressions in qualitative data. It can also bolster findings when it corroborates those findings from qualitative evidence. Qualitative data are useful for understanding the rationale or theory underlying relationships revealed in the quantitative data or may suggest theories which can then be strengthened with quantitative support.”

For theory-building researchers from case study, one important data collection principle is to combine multiple data collection methods and use multiple data sources such as interviews, observations and archival sources (Eisenhardt, 1989; Yin 2009). In this research, I mainly used four sources of data: interview, survey questionnaire, direct observation and documentation.

2.4.1 Interviews

The primary source of data came from semi-structured interviews conducted at the companies' HQ and subsidiaries. Before conducting the interviews, I developed interview guidelines including questions based on my research goal to cover the main research topics (See Appendix 1). Most questions were open-ended to encourage the interviewees to speak freely and share their insights.

Table 2.1 Basic Descriptions of Six Cases

Case	Industry	Founded (Year)	Global Revenue 2011 (MDKK)	Employees (Global)	Established in China (Year)	China Revenue 2011 (MDKK)
FAB	Fabric	1850s	260	63	2003	12
PUM	Pump	1830s	700	484	2005	240
EAR	Medical Equipment	1860s	650	460	1994	48
BEE	Beverage Equipment	1950s	900	573	1994	60
VET	Veterinary Equipment	1890s	752	220	2006	1
LIG	Lighting Equipment	1980s	714	655	2003	10

Note: All company names are confidential.

From November to December 2011, primary interviews were conducted with the participant team members and other top managers within each firm to develop a case history of each BMI program. I collected longitudinal data from January 2011 until December 2013. With the SfG research team members at the Universe Foundation, I visited the HQs or subsidiaries of the six firms and interviewed the top managers and BMI project team members at least once every quarter. In this study, I had three types of informants. The first informants were the top managers at the HQ, including those who had direct control over the overall corporate strategy (e.g. chairman, CEO, president and vice presidents at the HQ). The second were the top managers at the subsidiary who had direct control over the overall strategy of a subsidiary (e.g. general manager and deputy general manager at the subsidiary). The third informants were the team members of the BMI projects who directly managed the BMI project, some residing at the HQ and some residing at the subsidiary. Having diverse informants from multiple hierarchical levels can greatly reduce the potential information bias (Golden, 1992; Miller, Cardinal and Glick, 1997).

The average duration of the interviews was about two hours (ranging from one hour to three hours). Each interview was conducted by two investigators, with one investigator primarily responsible for the interview and another investigator responsible for taking notes. After the interview, we followed the '24-hour rule', requiring that the detailed interview notes and impressions were completed within one day of the interview (Bourgeois and Eisenhardt, 1988; Yin, 1994).

2.4.2 Survey Questionnaire

I used a questionnaire to collect quantitative data, which included some important factors that influence the BMI process: problems encountered, resource scarcity, decision influence and business model (BM) effectiveness (see Appendix 2).

Problems encountered refers to obstacles or barriers experienced in the development of an innovation over time (Van de Ven and Chu, 2000, nine items). *Resource scarcity* refers to the amount of work undertaken by BMI participants and the perceived degree of competitiveness for

obtaining critical resources for development and innovation (Van de Ven and Chu, 2000, six items). *Decision influence* refers to the amount of discretion or authority that BMI group members perceive they exercise in making decisions on the goals or directions of the innovation, what work needs to be done, the obtaining of resources for the innovation and the recruiting of personnel to work on the innovation (Van de Ven and Chu, 2000, four items). *BM Effectiveness* is the degree to which people perceive that an innovation attains their expectations about process and outcomes (Van de Ven and Chu, 2000, five items).

2.4.2 Documentation

I used a documentation method to collect secondary data of the cases. The documentation mainly included information from the companies' websites, annual reports and documents for the Universe Foundation, customers or stakeholders. These archival data were very useful for understanding the background and project contexts of the case companies. Each quarter, the six firms sent their project reports to the Universe Foundation from which I could get the latest information about each project situation.

Overall, I used multiple methods to collect data such as interviews (IN), survey questionnaires (SQ) and informal discussions (ID) with the team members through meetings, emails, Skype and telephone calls.

2.5 Data Analysis and Map of the BMI Journey

Using multiple data collection methods, I obtained an overwhelming amount of rich raw data about each firm's BMI effort. For me, the challenge was how to draw inferential links between these raw data and theories. MIRP studies have developed valuable methodologies and procedures for analysing longitudinal qualitative data. According to Van de Ven and Poole (2000), four basic steps are very useful in tabulating qualitative data in a manner that helps identify process change patterns: (1) chronological listing of qualitative events, (2) coding chronological events into conceptual tracks, (3) analysing process patterns or cycles in activity tracks and (4) vocabulary for describing processual progressions. In this research, I learned from the MIRP studies about the

procedures for analysing qualitative data. At the same time, following the recommendations for multiple-case theory building (Eisenhardt, 1989; Eisenhardt and Graebner, 2007), I used both within-case and cross-case analyses with no a priori hypotheses. Specifically, I used three steps to analyse raw data and develop process theories about BMI.

2.5.1 Write Up of Each BMI Story

First, I tabulated qualitative data into a table, as shown in Table 2.2, to develop a chronological listing of key events that occurred in the process of BMI in each firm. I defined events as instances when important changes were observed to occur in either resource configuration, task coordination or value creation and value capture of BMI being examined over time. Chronological listings of key events were obtained by combining data collected through interviews, surveys, archival sources and documentation.

Table 2.2 Chronological Listing of Events

Day/Month/Year	Event	Data Source

Second, to identify the innovation process, I organised the longitudinal data into a format which is useful for coding chronological listings of key events into multiple tracks that correspond to the conceptual research categories (see Table 2.3).

Table 2.3 Chronological Events and Conceptual Tracks

	2012				2013			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Resource configuration								
Task coordination								
Value creation								
Value capture								

I tracked the entire BMI process in each firm from November of 2011 to December of 2013 and identified the key events which occurred at different times. Based on these two steps, I wrote up each BMI story which provided a mapping of all the relevant events in each BMI process. After the initial write-up of each BMI story, I discussed each one with the SfG project team. For any missing details, I conducted additional interviews via email or Skype phone call with managers from the six participant firms. Finally, I synthesised all the data into one finished BMI story.

2.5.2 Within-Case Analysis

For the within-case analysis, I took each specific case (in the form of their BMI story) as the unit of analysis. At this stage, I focused on identifying a unique pattern of the BMI process to achieve good knowledge about each BMI story. From the patterns that emerged from the within-case analysis, I developed tentative theoretical constructs.

2.5.3 Cross-Case Analysis

Using the replication logic, I conducted the cross-case analysis, and I used tables and charts to look for the emergence of shared themes across the multiple cases (Eisenhardt, 1989). I iterated between theory and data to clarify the specific findings and theoretical arguments to refine my tentative theoretical constructs. Finally, these iterations helped yield my final theoretical framework. Notably, this approach is different from the classic grounded theory approach given the initial literature review and tentative framework, but I have followed the spirit ('open mind'), rather than the letter ('empty head') of the classic grounded theory approach (cf. Dey, 1999; Eisenhardt, 1989).

Notes:

1. Since 1983, researchers at the University of Minnesota have been engaged in a longitudinal field research program with the objective of developing a process theory that explains innovation development. The Minnesota Innovation Research Program (MIRP) consists of longitudinal field studies of 14 different technological, product, process, and administrative innovations in public and private sectors. While the program accommodates individual requirements of each innovation, MIRP researchers adopted a common framework and methodology to compare and integrate findings across all innovations. This common framework is based on a definition that the process of innovation is the invention and implementation of new ideas, which are developed by people, who engage in transactions with others over time within an institutional context, and who judge outcomes of their efforts and act accordingly.” (Van de Ven and Poole, 1990, 314)

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Appendix 1. SfG BMI Interview

A. Business model design or innovation

(Concerning the activities of the content, structure and governance of a business model. *What* activities should be performed? *How* should the activities be linked and sequenced? *Who* should perform the activities, and *where*?)

- 1) What activities should be performed for the new business model?
- 2) What new products should be sold?
- 3) Which customers should be targeted?
- 4) Which geographical markets should be addressed?
- 5) Which parties should be brought together to exploit the business opportunity?
- 6) How should the parties be linked to your firm to enable transactions?
- 7) What information or products should be exchanged among the parties?
- 8) What resources should be deployed to enable the exchange?
- 9) What capabilities should be deployed to enable the exchange?
- 10) What exchange mechanisms should be adopted in your new business model?
- 11) How can you control the transactions between the parties?
- 12) What incentives should be adopted for the parties?

(Concerning value creation of the new BM)

- 13) What kind of generic strategy should be adopted to create value for your customers?
- 14) What value propositions should align with the customer's needs?

B. Innovation process

(Concerning key events during the process)

- 15) What key events occurred during the last 3 months?
- 16) What is the context of the event?

C. Internal environment

(Concerning the relationship between HQ in Denmark and the Chinese office)

- 17) What support or resources do you have from the HQ in Denmark?
- 18) What expectation does the HQ have for the project?

(Concerning Strategic Intent in China)

- 19) From the perspective of the Danish HQ, what kind of strategy should be adopted in China?
- 20) From the perspective of the Chinese HQ or office, what kind of strategy should be adopted in China?

(Concerning BM team status)

- 21) How many members are there in the project team? What are their positions in your firm?
 - 22) How much time does your team spend on the new project?
 - 23) Who is the leader of the project team?
- (Concerning resources)
- 24) What key resources do you need to implement the project?
 - 25) Do you have adequate resources to implement the project?

D. External environment

- 26) Who are your main competitors?
- 27) What disadvantages/advantages does your firm have compared to your competitors?
- 28) What characteristics are there in the mid-end market in your sector?

E. Outcomes

- 29) What kind of value does the new project create for all partners?
- 30) How is the performance generated by the project evaluated?
- 31) What main challenges does your firm need to meet to implement the new BM?

Appendix 2 SfG BMI Survey Part 1

Dear Participants,

The purpose of the SfG research study is to better understand how to manage the business model innovation (BMI) process and to learn what factors influence the successful development of BMI over time. We therefore aim to track the BMI over time by obtaining periodic information through this survey, interviews and various documents.

We would appreciate your cooperation in this study by completing this survey. It should take less than thirty minutes. Most questions can be answered by simply circling or writing a number that reflects your best judgment on an answer scale. All questions are straightforward, and there are no right or wrong answers.

Please submit this questionnaire to Yangfeng Cao at the end of the first day of the boot camp.

Thank you for your cooperation.

Basic information

Today's date		Name of your firm	
Your name		Your email address	
Your position		Your telephone number	

Please describe your role or part in this project by listing below the major tasks you performed during the last three months to develop this project.	What percentage of your total time on this project was spent on this task
	%
	%
	%
	%
	%
	%
	%
	%
	%
	%
	%

On average, how many hours per week did you work on matters related to the project in the last three months.

_____ hours/week

Please describe any particular problems or difficulties you are currently experiencing in developing this project.

During the last three months, to what degree have you experienced each of the following difficulties?
(Problems Encountered)

		Amount of difficulty				
		None	Little	Some	Much	Great
01	Lack of clarity about certain goals or plans for the project	1	2	3	4	5
02	Lack of understanding about how to implement certain goals or plans for the project	1	2	3	4	5
03	Lack of finance or resources necessary for developing the project	1	2	3	4	5
04	Lack of support from key sponsors of the project	1	2	3	4	5
05	Lack of autonomy for developing the project	1	2	3	4	5
06	Lack of trust for developing the project	1	2	3	4	5
07	Lack of linking or coordinating with other organisational units	1	2	3	4	5
08	Lack of support from HQ in Denmark	1	2	3	4	5
09	Lack of time for developing the project	1	2	3	4	5

How much influence did you have in each of the following decisions that may have been made during the last 3 months? (Decision influence)

		Decision Not Made	None	Little	Some	Quite A Bit	Very Much
01	Setting goals and performance targets for the project	0	1	2	3	4	5
02	Deciding what work activities are to be performed on the project	0	1	2	3	4	5
03	Deciding on funding and resources for the project	0	1	2	3	4	5
04	Recruiting individuals to work on the project	0	1	2	3	4	5

How much does your project have to compete with other organisational units for each of the following (*Resource scarcity*):

		None	Little	Some	Much	Very Much	
01	Financial resources	1	2	3	4	5	
02	Materials, space and equipment	1	2	3	4	5	
03	Management attention	1	2	3	4	5	
04	Personnel	1	2	3	4	5	
05	How heavy was your work load during the past three months on this project?	1	Often not enough to keep me busy				
		2	Sometimes not enough to keep busy				
		3	Just about the right amount				
		4	Hard to keep up with				
		5	Too much to handle				
06	How far in advance do you generally know what kind of work is required of you on this project?	1	About 1 hour in advance				
		2	About a day in advance				
		3	About a week in advance				
		4	About a month in advance				
		5	About 3 months in advance				

Business Model Effectiveness is the degree to which people perceive that an innovation attains their expectations about processes and outcomes.

		Not at all	A little	Somewhat	Quite satisfied	Very satisfied
01	Overall, how satisfied are you with the progress made in developing your company's BMI during the past three	1	2	3	4	5

months?		Poor	Fair	Good	Very Good	Excellent
02	Overall, how would you rate the present effectiveness of this BMI?	1	2	3	4	5
03	How well do people connected with the BMI anticipate and solve problems?	1	2	3	4	5
		Far Below	A Little Below	As Expected	A Little Above	Far Above
04	To what degree is your progress with the BMI below or above your initial expectations?	1	2	3	4	5
		None	Little	Some	Much	Very Much
05	How much does this BMI contribute to attaining the overall goals of your organisation?	1	2	3	4	5

Appendix 3 The Example of Chronological Events and Conceptual Tracks

Company: GAB

Time	Key Events
2012 Quarter 1	GAB plans to explore the segment of design companies in their business, because right now the company only provides surface products to the customer segments. The new idea of business model is that GAB can provide the whole design solution for the furniture producer and the office system. The new segment is not furniture design companies but the design company that covers the whole supply chain. ...
2012 Quarter 2	Based on investigation, the project team identified the Focused Customers: A and B customers who are with the potential buying capability or the potential of setting up the new development task with GAB. ...
2012 Quarter 3	The team defined the product Value Proposition as five elements: Quality, Price, Lead time, Color Scale, and Design. ...
2012 Quarter 4	Made the prototype of new product at the supplier. ...
2013 Quarter 1	...
2013 Quarter 2	...
2013 Quarter 3	...
2013 Quarter 4	

Appendix 4 The Example of Information About Key Events

GAB- Statements or key events				
Document ID	Page	Note#	Statement or Key events	Category
GAB-AD-001	3	7	Some purchasing functions and/or key decision makers expect kick-backs in return for placing order	
GAB-AD-002	5	3	Unethical business practices	
GAB-AD-003	1	1	Lack of knowledge about marketing and sales	
GAB-AD-004	1	1	Sales of quality fabrics are difficult. More than 80 percent of the fabrics sold in China are low-cost products without a clear or documented environmental profile.	
GAB-AD-006	12	1	It is difficult to find higher quality supplier in China	
GAB-AD-010	18	1	Customers like the products which price is low, and the quality is high.	
GAB-IN-001	2	10	Lack of knowledge about the customers and their preferences	
GAB-IN-001	2	10	Lack of focus from the team on the project	
GAB-IN-001	2	10	Lack of competences within the team, all of three member are all textile engineers without much insight into business development and the customers	
GAB-IN-001	2	10	the team lack support or direction from their top manager	
GAB-IN-001	2	10	There is no real team, no team leader, and no full time team members. there is not a clear power struggle among the team members	
GAB-IN-001	2	10	Team members do not know what value proposition for Gabriel's customers?	
GAB-IN-001	2	10	The relationship between HQ in Denmark and Chinese office is not clear. Team members did not know what resource and support can be gotten from HQ in Denmark.	
GAB-IN-001	2	10	The new designs that Gabriel are making are quickly copied by the manufacturers or competitors	
GAB-IN-001	2	10	Customers mention price and quality as the most important parameters	
GAB-IN-002	1	12	We have not real sponsor for the project. Who is the real leader can support the project?	
GAB-IN-002	1	12	I take charge of the product development, but only think about what value the customers want to get in office everyday. We do not know what's the customers feeling. We have no time, no resource to meet customers.	
GAB-IN-002	1	12	We can not get valuable information about customers value from sales people.	
GAB-IN-002	1	12	We do not know what is the strategic goal in China. The relationship between HQ in Denmark and Chinese office is not clear. Who is the project sponsor?	

Chapter 3: Entrepreneurial Aspiration and Flexibility for Business Model Innovation: HQ-Enabled Dynamic Capability of Medium-Sized MNEs for a Top-Down Venture

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Abstract

Primarily due to the large gaps in economic and institutional contexts between advanced and emerging economies, effective business models in the two distinctive contexts tend to differ. In particular, the business model innovation (BMI) at the subsidiary level plays an important role in the success of multinational enterprises (MNEs) from advanced economies operating in emerging economies as top-down ventures. While some studies claim that direct involvement of headquarters (HQ) in the operations of subsidiaries is critical, surprisingly little is known about how HQ specifically enables BMI at the subsidiary level, especially for medium-sized MNEs (MMNEs). Adopting the method of a comparative and longitudinal case study, we tracked the BMI processes of six Danish MMNEs operating in China. The emergent framework indicates that entrepreneurial aspiration and flexibility at the HQ level are two primary enablers of BMI (in terms of new value creation and new value capture) at the subsidiary level, with dynamic capability (in terms of sensing and seizing new opportunities) as the underlying mechanism. We also found that BMI can contribute to the initial enablers in a feedback loop. Hence, we contribute to the literature of BMI and dynamic capability by enriching both research streams, especially the critical link between BMI and dynamic capability in the context of international strategic entrepreneurship (ISE).

Keywords: *Business Model Innovation; Dynamic Capability; Headquarters-Subsidiary Link; Aspiration; Flexibility; Emerging Economies; Medium-Sized MNE; International Strategic Entrepreneurship.*

Business model scholars have shifted emphasis from value capture to value creation, highlighting the latter without ignoring the former – Zott, Amit and Massa (2011: 1037).

It is important to recognize that the entrepreneurial management function embedded in dynamic capabilities is not confined to start-up activities and to individual actors – Teece (2012: 1398).

Innovation process in multinational enterprises (MNE) is largely context specific, and carried out at the subsidiary level – Ciabuschi, Forsgren and Martin (2011: 958).

3.1 Introduction

Business models, which are central to a firm's competitive advantage and overall performance (Casadesus-Masanell and Ricart, 2010; Markides and Charitou, 2004; Morris, Schindehutte and Allen, 2005), have received growing attention in recent years (see Zott, Amit and Massa, 2011 for a recent review). Despite the surge in popularity, there is little consensus on the definition, nature, content and process of a business model (Zott et al., 2011), including its links with value creation and value capture (Lepak, Smith and Taylor, 2007), dynamic capability (Teece, 2007) and multinational enterprises or MNEs (Ricart et al., 2004), as indicated by the three issues in the above three quotes. Consequently, we know little about how BMI is achieved for new value creation and new value capture in general (Lepak et al., 2007), especially the required core capabilities as the underlying mechanisms for business model innovation (BMI) (cf. Teece, 2007). Given the potential connection between the business model and dynamic capability, especially the potential role of dynamic capability in developing novel business models (BM), it is surprising that such little research focuses on the interaction between dynamic capability and BMI (cf. Zahra, Sapienza and Davidsson, 2006; Zott et al., 2011), especially the effect of dynamic capability on BMI (cf. Leih, Linden and Teece, 2015; Teece, 2007). Owing to the greater salience of BMI than product or service innovation as the source of sustainable competitive advantage (EIU, 2005), we must understand how BMI occurs, especially its potential link with dynamic capability. This is the first gap in the literature.

Further, the business model can be only effective if it is designed properly for a specific context. In that sense, the business model of MNEs is expected to differ from that of domestic firms (Ricart

et al., 2004). Specifically, owing to the large gaps or distances in the economic and institutional contexts between advanced and emerging economies, successful ventures by MNEs from advanced economies into emerging economies, which we refer to as *top-down ventures* engaged by the local subsidiary of MNEs, will depend heavily on a novel business model designed to match the context of emerging economies (Cavusgil and Agarwal, 2002; Hansen, Petersen and Wad, 2011; Khanna and Palepu, 2010). Furthermore, because of the internal contextual dimensions of corporate size and age, the key challenge to top-down ventures seems more acute for medium-sized MNEs (MMNEs) than both large and small MNEs (the latter is often referred to as ‘born-globals’, Oviatt and McDougall, 2005; Zahra and George, 2002). This is because MMNEs tend to have fewer resources than large MNEs, but less flexibility than small MNEs (cf. Aspara and Tikkanen, 2013; Zahra, Neubaum and Huse, 2000). Given the accelerating trend of globalisation, the business model of MNEs should be the focus of research on BMI (Tallman, 2014), especially linking BMI to MNE entrepreneurship (Grogaard, Verbeke & Zargazadeh, 2011; Teece, 2014). However, there is little research on BMI and dynamic capability in the context of MNEs, including the role of HQ in this process (cf. Aspara, Lamberg, Laukia and Tikkanen, 2011; Autio, George and Alexy, 2011). As a result, we know little about how BMI is achieved in the global context, especially in the case of top-down ventures by MMNEs. Given the salience of the global context to MNEs and the paucity of research on MMNEs, we need to study how BMI occurs in the global context in the case of MMNEs. This is the second gap in the literature.

To fill the above two gaps, the purpose of this study is to explore how the HQ of MNEs enables BMI at the subsidiary level, especially regarding the special link between dynamic capability and BMI in the specific context of top-down ventures by MMNEs. To study the underlying mechanisms of BMI, we choose the qualitative method of a comparative and longitudinal case study with special focus on the BMI process, including the concrete triggers and contexts for those underlying mechanisms of BMI. This study seeks to make two salient contributions. One is to shed light on the overall link between BMI and dynamic capability, with contributions to the literature on both

business model and dynamic capability, while the other is to shed light on the specific role of HQ entrepreneurship as an enabler for BMI and dynamic capability in the context of top-down ventures by MMNEs, with the contribution to the nascent literature on both international entrepreneurship and strategic entrepreneurship. Specifically, we develop a new process framework from HQ entrepreneurship to *BMI* (which refers to a holistic redesign of the old business model into a novel one with novel value creation and novel value capture) via *dynamic capability* (which refers to the capabilities to sense and seize novel opportunities) as a mediating mechanism. In the context of top-down ventures by MMNEs, HQ entrepreneurship contains two dimensions as two enablers for dynamic capability and BMI at the subsidiary level: (1) entrepreneurial aspiration and (2) entrepreneurial flexibility. This process framework is built upon strategic entrepreneurship as the shared foundation for BMI and dynamic capability in the global context toward a new domain of *international strategic entrepreneurship (ISE)*, which lies at the nexus of strategic entrepreneurship and international entrepreneurship (Li, 2010, 2013; cf. Teece, 2014). In other words, the proposed process framework will contribute by opening the black boxes of BMI, dynamic capability and their entrepreneurial enabler in the global context of MNEs, especially in the special case of top-down ventures by MMNEs.

The remainder of this study is organised into four sections. First, we review the relevant literature to develop an open-ended framework as a tentative theoretical guidance. Second, we describe the method using six cases. Third, based upon the case evidence and the extant literature, we develop two novel sets of propositions toward a specific framework concerning how a HQ enables its subsidiary's BMI via dynamic capability as the underlying mechanism. Finally, we discuss the implications of this study for future research and present our conclusions.

3.2 Theoretical Background

3.2.1 The Potential Connection between BMI and Dynamic Capability

There is little doubt that BMI is central to firm-level competitive advantage and overall performance, as captured by the recent surveys of top executives by several consulting firms (e.g.

EIU, 2005; IBM, 2006, KPMG, 2006). According to these surveys, the majority of the top executives think that BMI is more critical than product/service innovation as the core source of competitive advantage in the future. Despite the growing recognition of the importance of BMI, the research on BMI is lagging behind to the extent that ‘it appears that researchers (and practitioners) have yet to develop a common and widely accepted language that would allow researchers who examine the business model construct through different lenses to draw effectively on the work of others’ (Zott et al., 2011: 1020). Further, despite the growing recognition that value creation and value capture are central to the business model (Zott et al., 2011), ‘there is little consensus on what value creation is or on how it can be achieved’, including ‘the process by which value is created, and ... the mechanisms that allow the creator of value to capture the value’ (Lepak et al., 2007: 180). Finally, ‘the emerging literature on dynamic capabilities and their role in value creation is riddled with inconsistency, overlapping definitions, and outright contradictions’ (Zahra et al., 2006: 917; also see Ambrosi & Bowman, 2009).

The lack of consensus on the definition, nature, content and process of the business model (including BMI) as well as those of value creation and dynamic capability may not be coincidental. We argue that the above constructs are potentially interrelated, and the lack of consensus may be rooted in our failure to identify their shared foundations and integrate them upon such shared foundations. There is at least one foundation shared by the above constructs: entrepreneurship (with innovation as the inherent core component) (Morris et al., 2005; Teece, 2007; Zahra et al., 2006; Zott et al., 2011). It is generally accepted, explicitly or implicitly, that business model, value creation and dynamic capability share the same foundation of entrepreneurship, with this foundation more salient in the sub-area of strategic entrepreneurship than the sub-area of start-up entrepreneurship (Morris et al., 2005; Teece, 2007; Zahra et al., 2006). Further, as the primary function of entrepreneurship, value creation (with value capture) can serve as the shared theme to interconnect the business model and dynamic capability. While the more established strategic management literature focuses mostly on value capture, the nascent research on the business model

highlights value creation (Aspara and Tikkanen, 2013; Pitelis, 2009; Priem, Butler and Li, 2013), which ushers the emerging trend toward the requisite balance between value creation and value capture as the dual dimensions of the business model (Lepak et al., 2007; Zott et al., 2011). Similar to the direct link between value creation and the business model, dynamic capability is also directly tied to value creation (Lepak et al., 2007; Teece, 2007). In this sense, the business model (also BMI) and dynamic capability are interrelated upon the shared foundation of entrepreneurship as well as the shared theme of value creation, both related to innovation. In other words, BMI and dynamic capability are central to entrepreneurship in general and strategic or corporate entrepreneurship in particular because BMI and dynamic capability are more salient to mature firms than young start-ups when the former must continuously renew their resource bases (for reviews, see Covin and Miles, 1999; Kuratko and Audretsch, 2009).

Based upon their shared foundation and theme, a potential consensus could be developed upon the integration of a business model (also BMI) with dynamic capability as the core of entrepreneurship for the two core purposes of value creation and value capture. From the integrative perspective, we refer to *business model* as a firm-specific (yet open to inter-firm alliance network) holistic system of well-coordinated functional activities on the dual dimensions of resource configuration (activity content) and task coordination (activity process) for the two core purposes of value creation and value capture (cf. Amit & Zott, 2012; Li, 2010; Zott et al., 2011). In this sense, we refer to BMI as a higher-order innovation compared to lower-order product, service and process innovations (cf. Amit & Zott, 2012; Collis, 1994; Mitchell & Coles, 2003; Zott et al., 2011). Further, as a higher-order innovation, BMI must always occur at the system level with coordinated innovations in at least two functional areas, which result in some changes in both the dual dimensions (i.e. resource configuration and task coordination) for the dual purposes (i.e. value creation and value capture), thus beyond adaptation as isolated changes. From the integrative perspective, we refer to *dynamic capability* as a meta-capability to reconfigure (by creating and/or renewing) functional capabilities (also referred to as ordinary or substantive capabilities) at the

system level on the dual dimensions of sensing and seizing new opportunities for the core purposes of value creation and value capture (cf. Ambroshi and Bowman, 2009; Teece, 2007, 2012; Zahra et al., 2006). Similar to BMI, dynamic capability as a meta-capability must create and/or renew at least two functional capabilities in a coordinated manner at the system level. Since we regard dynamic capability as a cause and BMI as an effect, we assume the causal direction from dynamic capability to BMI. In other words, we frame dynamic capability (with the dual dimensions of sensing and seizing novel opportunities) as the underlying mechanism for BMI (with the dual dimensions of novel value creation and novel value capture) (cf. Lepak et al., 2007; Teece, 2007).

3.2.2 Contextual Features of Top-Down Ventures by MMNEs

Given the increasing imperative of a global context for BMI, it is surprising that there is so little research on BMI and dynamic capability for MNEs (Tallman, 2014; Teece, 2014). Traditional research on international innovation tends to focus on technological innovation (see Gammeltoft, 2006 for a review), which rarely refers to BMI or dynamic capability (e.g. Ciabuschi et al., 2011; Phene and Almeida, 2008). In contrast to the traditional research on the global innovation of large MNEs, recent literature on international entrepreneurship focuses almost exclusively on young MNEs or ‘born-globals’, which barely covers the business model or dynamic capability (Jones, Coviello and Tang, 2011; Keupp and Gassmann, 2009; Peiris Akoorie and Sinha, 2012). Hence, we know very little about how BMI occurs or how it relates to dynamic capability in the global context.

Three features of the global context are particularly salient to this study. First, the context of cross-divide entry for the mid-end market is salient because the large gaps or distances between advanced and emerging economies require BMI. We refer to those cross-border activities between advanced and emerging economies as *cross-divide entry* (as two sides of the global divide), with those from advanced economies to emerging economies as *top-down ventures*, and those from emerging economies to advanced economies as *bottom-up ventures*. According to a survey (KPMG, 2006), the need to gain novel opportunities in emerging markets is the most critical driver for BMI. This is because the prior business model originally designed for advanced markets tends to fail in

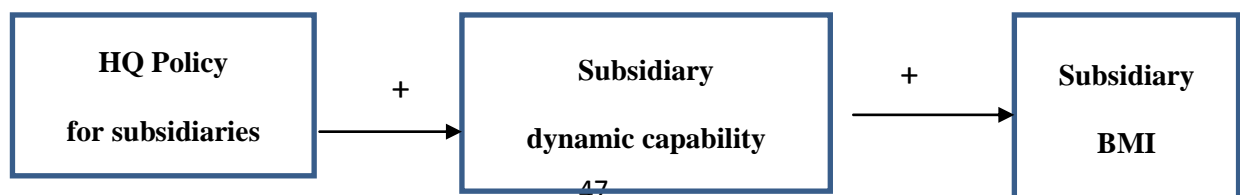
emerging markets (Hansen, Petersen and Wad, 2011). Hence, cross-divide entry provides an ideal context for studying BMI in the global context. The case of a top-down venture is particularly salient for those MNEs who are transforming their strategic role from serving existing home-based or international clients (when such clients enter an emerging economy, often at the top-end segment) to serving those novel host-based or local clients (such clients tend to be at the mid-end segment, largely because the low-end segment in emerging economies is often off-limits for MNEs from advanced economies). We frame the *mid-end market* in an emerging economy as the mainstream market with unique opportunities and unique challenges for any top-down venture (Li, 2013).

Second, the contextual issue of MMNEs is salient because it tends to confront some distinctive challenges primarily due to the general lack of resources compared to large MNEs as well as the general lack of flexibility compared to small MNEs (cf. Aspara and Tikkanen, 2013; Zahra et al., 2000). Given the paucity of research on MMNEs (Jones et al., 2011; Keupp and Gassmann, 2009) as well as the salience of MMNEs as the hidden champions in the global marketplace (Simon, 2009), we must pay more attention to the unique case of MMNEs rather than mixing them with small MNEs (Keupp and Gassmann, 2009; cf. Lu and Beamish, 2001; Zahra et al., 2000). Further, MMNEs are more likely to engage in BMI than small MNEs because the former has established a prior business model at home before venturing into the global market so that the former tends to suffer from their organisational inertia (Autio et al., 2011), thus indicating a serious need for unlearning (Zahra, Abdelgawad and Tsang, 2011). In this sense, MMNEs provide an ideal context for studying BMI in the global context.

Third, the last salient contextual issue is the specific role of HQ in the process of innovation in general and BMI in particular at the subsidiary level, which boils down to the central issue of the HQ-subsidary relationship. This issue remains controversial with the debate over HQ's centralised or decentralised policy toward subsidiaries, which is central to MNE research (Bartlett and Ghoshal, 1998; Prahalad and Doz, 1987), with critical implications for global innovation (Gammeltoft, 2006). Some scholars classify the role of HQ into 'entrepreneurial' (value creating) and 'administrative'

(loss preventing) (e.g. Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006). However, it seems difficult for HQ to play both entrepreneurial (value-creating) and administrative (loss-preventing) roles at the same time; thus, HQ is often advised to focus on one of the two roles (Ciabuschi et al, 2012; Prahalad and Doz, 1987). Other scholars identify two opposing perspectives: rationality and ignorance (Ciabuschi et al., 2011). The rationality perspective posits that the involvement of HQ in the innovation at the subsidiary level should match the extent of HQ’s knowledge of the subsidiary’s operating context. In contrast, the ignorance perspective assumes that HQ lacks the relevant knowledge so that HQ is likely to be ‘groping in the dark’ and is thus unable to be effective. Further, owing to information overload (Egelhoff, 1991, 2010), radical uncertainty (Forsgren and Holm, 2010), bounded reliability (Verbeke and Greidanus, 2009) and sheer ignorance (Forsgren, Holm and Johanson, 2005), HQ tends to be ill-informed of the unique contexts of its diverse subsidiaries and is thus prone to errors in decision-making about the operations of subsidiaries (Foss, Foss and Nell, 2012). This implies that HQ should adopt a decentralised rather than a centralised policy toward subsidiaries. However, the research on the HQ-subsidiary relationship often ignores the impact of core contingents, including the external contextual factors, such as the gaps or distances between home and host contexts (e.g. Gupta and Govindarajan, 1991; Harzing and Noorderhaven, 2006) as well as the internal contextual factors, such as the size and age of the MNE (cf. Autio et al., 2011; Zahra et al., 2000). Hence, the role of HQ, especially its broad policies for subsidiaries, is a salient contextual issue for the study of BMI at the subsidiary level. It is worth noting that HQ’s policy impact on subsidiaries can be a double-edged sword with both positive (e.g. ‘entrepreneurial’) and negative (e.g. ‘administrative’) influences. For the purpose of this study, we focus on the positive, i.e. ‘entrepreneurial’, role of HQ for BMI at the subsidiary level.

Figure 3.1 A Tentative Process Framework of HQ’s Impact on a Subsidiary’s DC and BMI



In sum, even though extant literature provides some useful cues, there is no readily available theoretical guidance for us to study regarding how HQ enables BMI at the subsidiary level, especially for top-down ventures by MMNEs. Hence, we have to start with an open-ended framework as a tentative guide to help us explore the issue using a case-study approach (see Figure 3.1 for details).

3.3 Method

Building new theories from one or more cases is a research strategy to develop new theoretical constructs, propositions and/or mid-range theories from case-based empirical evidence (Eisenhardt, 1989). Further, creative insights often arise from the juxtaposition of contradictory or paradoxical evidence from cases (Pettigrew, 1990). In this research study, we adopted the method of a comparative and longitudinal case study for theory-building due to the lack of related theories or a specific focus on process issues for which a case study is best (Eisenhardt, 1989; Pettigrew, 1990). Therefore, our research design was a multiple-case study that adopted the replication logic, which treated a series of cases as a series of lab experiments. Each later case served to confirm or disconfirm the inferences drawn from the earlier cases (Eisenhardt, 1989, 1991; Eisenhardt and Graebner, 2007; Yin, 1994).

The research setting was MMNEs based in advanced economics but operating in emerging economies as a top-down venture. MMNEs play a critical role in the global competition often as the hidden champions (Simon, 2009), but the actual internationalisation process of such MNEs has attracted little academic attention; thus, indicating an urgent need for research (Keupp and Gassmann, 2009). Further, this study was part of the *Suitable for Growth* (SfG) project sponsored by the Danish Industry Foundation and the Universe Foundation in Denmark.

The project goal was ‘to develop a generic framework for penetrating mid-end markets in emerging economies using China as a primary case, and to develop some viable operating models

that can help medium-sized Danish companies develop their own business strategies to penetrate such mid-end markets.’ We used five criteria to select firms for our project: (1) medium-sized firms from Denmark with a global turnover of DKK 250–1,500 million, (2) experience with international business activities, (3) possess a local operation in China, (4) have China as a strategically critical market and (5) demonstrate the willingness to invest time and resources in this BMI project for the mid-end market in China, which is ‘unchartered water’ to all foreign firms.

From May to August 2011, the project team conducted a series of semi-structured interviews within each firm before the firm joined the project. The interviews were conducted with the CEO at their HQ. The purpose of the initial interviews was to learn about the participating firm’s strategy for China and to check the firm’s commitment to the BMI project. Interviewees were asked to describe their goals and plans of their BMI projects as well as their challenges and barriers. All six firms were committed to the special BMI for the Chinese mid-end market across six distinctive industries. Finally, six Danish firms were chosen to participate in the project.

All samples firms had long corporate histories, with four firms over 100 years old. The companies were from six different industries: fabric, pumps, medical equipment, beverage equipment, veterinary equipment, and lighting equipment (see Table 1 for more details). All six firms had subsidiaries in China (one subsidiary for each firm) at the start of data collection. Within the last five years, all six firms had tried to redesign their old business models which were designed for advanced markets. In particular, they had selected the strategy to target the mid-end market segment in China as the most attractive, given the potential size and fast growth (Tse, Russo and Haddock, 2011).

Table 3.1 Descriptions of Six Cases

Firm Name	Industry Type	Birthday (Year)	Revenue in 2010 (Million DKK)	Number of Employees (Global)	Subsidiary Established in China (Year)	Interview Date and Location (64 interviews)
FAB	Fabric	1850s	200–250	60–100	2003	(1) Nov. 28, 2011, China (2) Feb. 21, 2012, China (3) March 23, 2012, China (4) April 16, 2012, China (5) April 24, 2012, China (6) May 21, 2012, China (7) July 02, 2012, China (8) July 30, 2012, Denmark (9) Sept. 11, 2012, China (10) Oct. 11, 2012, Denmark (11) Dec. 03, 2012, China (12) March 26, 2013, Denmark (13) April 23, 2013, China
PUM	Pumps	1830s	600–650	450–500	2005	(1) Nov. 28, 2011, China (2) Feb. 21, 2012, China (3) March 14, 2012, China (4) April 11, 2012, China (5) April 24, 2012, China (6) May 22, 2012, China (7) June 05, 2012, Denmark (8) June 28, 2012, China (9) Sept. 11, 2012, China (10) Nov. 21, 2012, China (11) Dec. 06, 2012, China (12) March 05, 2013 China (13) April 10, 2013, China (14) May 31, 2013, China
EAR	Medical Equipment	1860s	650–700	450–500	1994	(1) Nov. 29, 2011, China (2) Feb. 22, 2012, China (3) April 12, 2012, China (4) April 25, 2012, China (5) May 22, 2012, China (6) July 04, 2012, Denmark (7) Sept. 12, 2012, China (8) Nov. 02, 2012, Denmark (9) Dec. 05, 2012, China (10) March 06, 2013, China (11) July 22, 2013, China
BEE	Beverage Equipment	1950s	900–950	550–600	1994	(1) Nov. 29, 2011, China (2) Feb. 22, 2012, China (3) Feb. 03, 2012, Denmark (4) Feb. 22, 2012, China (5) April 25, 2012, China (6) Sept. 12, 2012, China (7) Oct. 24, 2012, Denmark (8) Feb. 28, 2013, Denmark
VET	Veterinary Equipment	1890s	750–800	200–250	2006	(1) Nov. 29, 2011, China (2) Jan. 13, 2012, China (3) Feb. 23, 2012, China (4) Feb. 22, 2012, China (5) March 16, 2012, China (6) April 26, 2012, China (7) Sept. 13, 2012, China (8) Nov. 04, 2012, Denmark (9) Dec. 03, 2012, China (10) Jan. 11, 2013, China
LIG	Lighting Equipment	1980s	714	650–700	2003	(1) Nov. 30, 2011, China (2) Feb. 22, 2012, China (3) April 26, 2012, China (4) May 25, 2012, China (5) Sept. 13, 2012, China (6) Oct. 05, 2012, Denmark (7) Jan. 11, 2013, Denmark (8) March 01, 2013, China

3.3.1 Data Collection

We relied on several different data sources, including (1) quantitative and qualitative data from the semi-structured interviews with CEOs and other informants; (2) archival data, including the BMI project reports and other internal documents; and (3) phone calls, emails and follow-up interviews were used to confirm some information collected through other means. The primary source of data was from 64 semi-structured interviews conducted at the HQs and their subsidiaries. The average duration of the interviews was two hours (ranging from one to three hours).

From October to December 2011, interviews were conducted with the team members and other top managers within each firm to develop a case history of each BMI program. In order to collect longitudinal data, from January 2011 to July 2013, we visited the HQs or subsidiaries of the six firms and interviewed the top managers and BMI project team members at least once every quarter. We also hosted four workshops (three days for each workshop) in China, where we collected both quantitative and qualitative data from the team members of all six BMI projects. In this study, we had three types of informants. The first informants were the top managers at the HQ, including those who had direct control over the overall corporate strategy (e.g. chairman, CEO, president and vice presidents at the HQ). The second were the top managers at the subsidiary who had direct control over the overall strategy of a subsidiary (e.g. general manager and deputy general manager at the subsidiary). The third informants were the team members of the BMI projects who directly managed the BMI project, some residing at the HQ and some residing at the subsidiary. Having diverse informants from multiple hierarchical levels can greatly reduce potential information bias (Golden, 1992; Miller, Cardinal and Glick, 1997).

Each interview was conducted by two investigators, with one investigator primarily responsible for the interview, another investigator responsible for taking notes. After the interview, we followed the '24-hour rule', requiring that the detailed interview notes and impressions were completed within one day of the interview (Bourgeois and Eisenhardt, 1988; Yin, 1994).

3.3.2 Data Analysis

Following the recommendations for multiple-case theory building (Eisenhardt, 1989; Eisenhardt and Graebner, 2007), we used both within-case and cross-case analyses with no a priori hypotheses. We began by writing up each BMI story based on the interviews, surveys and archival data about each case (Eisenhardt, 1989; Yin, 1994). Each BMI story provided the mapping of all the relevant events in each BMI process. After the initial write-up of each BMI story, the co-authors discussed each BMI story as a team. For any missing details, we conducted additional interviews via either emails or Skype phone calls. Finally, we synthesised all the data into one finished BMI story.

For the within-case analysis, we took each specific case (in the form of a BMI story) as the unit of analysis. At this stage, we focused on identifying the unique pattern of the BMI process to achieve good knowledge about each BMI story. From the patterns emerging from the within-case analysis, we developed our tentative theoretical constructs. Second, using the replication logic, we conducted the cross-case analysis. We used tables and charts to look for the emergence of shared themes across multiple cases (Eisenhardt, 1989). We iterated between theory and data to clarify our specific findings and theoretical arguments in order to refine our tentative theoretical constructs. Finally, these iterations helped yield our final theoretical framework. Notably, our approach is not the same as the classic grounded theory approach given our initial literature review and tentative framework, but we have followed the spirit ('open mind'), rather than the letter ('empty head') of the classic grounded theory approach (cf. Dey, 1999; Eisenhardt, 1989; Li, 2012).

3.4 Findings about How HQ Enables BMI at the Subsidiary Level

Comparing the cases that had completed their BMI at the subsidiary level with the other cases that were not yet complete, we identified two salient patterns: (1) the high entrepreneurial aspiration at the HQ level was the *first enabler* for the sensing dimension of dynamic capability and the value creation dimension of BMI at the subsidiary level and (2) the high entrepreneurial flexibility at the HQ level was the *second enabler* for the seizing dimension of dynamic capability and the value capture dimension of BMI at the subsidiary level. We regard the above two paths as the two underlying mechanisms for BMI, especially in the special context of top-down ventures by MMNEs.

3.4.1 From HQ Aspiration to Subsidiary Value Creation via Sensing Capability

The case evidence in this study shows that the entrepreneurial aspiration at the HQ level greatly enables the ability to sense new opportunities at the subsidiary level, which in turn serves as a core facilitator for value creation as an accelerated outcome at the subsidiary level. Hence, the higher entrepreneurial aspiration of HQ leads to a stronger ability to sense new opportunities (one of the dual dimensions of dynamic capability) and greater value creation (one of the dual dimensions of BMI) at the subsidiary level.

We refer to *entrepreneurial aspiration* in this study as the *aspirational mandate* and *aspirational priority* from HQ for its subsidiary to develop an effective BMI in the shortest time after its initial entry into an emerging market as a top-down venture (cf. Ansoff, 1979; Shinkle, 2012). From the data in the study, we identified two primary elements of entrepreneurial aspiration at the HQ level as readily applicable to the dynamic capability and BMI at the subsidiary level: (1) *aspirational mandate* and (2) *aspirational priority*. Further, since the sensing dimension of dynamic capability is a special ability for scanning, searching and exploring novel opportunities across diverse technological advances on the supply side and market needs on the demand side (cf. Priem et al., 2013; Teece, 2007), we operationalised the sensing capability *indirectly* via the functions of *market research* and *R&D* in a coordinated pattern. In other words, we framed the activities of market research and R&D as the specific embodiments of market research ability and R&D ability. Finally, we operationalised the value creation dimension of BMI in terms of novel value proposition and product innovation as the outcomes of integrating the core functions of marketing and R&D in a coordinated pattern (cf. Osterwalder and Pigneur, 2010).

In particular, we take *novel value proposition* and *product innovation* as the specific measures of *use value* related to value creation in contrast to process innovation and marketing innovation, which are the specific measures of *exchange value* related to value capture (cf. Bowman and Ambrosini, 2000; Mizik and Jacobson, 2003; Lepak et al., 2007). It is worth noting that we frame value creation (consisting of novel value proposition and product innovation) as primarily for the interest of the customer (in terms of use value) as the dominant stakeholder among all stakeholders

in contrast to value capture, which is primarily for the interests of other stakeholders in terms of exchange value (cf. Osterwalder and Pigneur, 2010; Sosna, Trevinyo-Rodriguez and Velamuri, 2010).

We used the qualitative assessments from the informants to measure the degree of entrepreneurial aspiration at the HQ level as well as the degree of sensing capability at the subsidiary level. Based on key activities and events, we rated the entrepreneurial aspiration of HQ and sensing capability of subsidiary in three categories: high, moderate and low. Tables 3.2 and 3.3 summarise the specific data for entrepreneurial aspiration and sensing capability in terms of key activities and events. Additionally, we identified the historical trajectories as the evolutionary patterns of such aspirations.

With substantially redesigned business models qualified as BMI, both FAB and PUM explicitly showed their shared features of high aspirational mandate and aspirational priority as well as strong sensing capability at the level of their subsidiaries in China. Following its big global customers, FAB established its subsidiary in Beijing in 2003. From 2003 to 2010, the basic mandate of FAB China was to source raw materials for the HQ in Demark. During this period, it also sold premium products to its old customers in China. Owing to the high growth of Chinese local market, FAB China received more attention from HQ. In 2011, FAB's HQ upgraded the mandate of FAB China to that of 'providing fabrics-related solutions to the global mid-end markets'. Under the new mandate, FAB China started to redesign its business model with a new portfolio of products to cover the customers at both Chinese high-end market and global mid-end market. As one manager said, 'the HQ has high ambitious goals for the Chinese market. The growth of the local market is very fast. Under the new mandate, FAB China will focus on both old customers and new local customers. We will develop the low-priced products for the mid-end market'. Related to the new mandate, FAB China received the status of aspirational priority with more support and resources from HQ. For instance, the CEO of FAB HQ increased his meeting time with the people at the Chinese subsidiary both in terms of more frequent visits to China (about once every quarter) and greater participation in the meetings about the Chinese operations. FAB even established a new

department for product development in China. At the same time, the designers from the HQ often joined the local team at the subsidiary level when visiting the local customers and discussed how to design new products to meet the unique needs of local customers, especially with the so-called ‘*good-enough*’ products.

The above activities of HQ enabled the ability to sense new opportunities at the subsidiary level. As one member of the local team noted, ‘within the last 7 years, FAB China had not developed any new product. I believe it is related to the low mandate for China unit. Now, we have the resources, space and ability to sense possible new opportunities for our new business model’. With the support from the HQ, FAB China built a designated team for BMI, which included the key employees from the marketing and R&D departments. To enhance the speed and quality of sensing capability as well as BMI, the team leader viewed ‘Innovating with Customers’ as the core principle for the effort, so they began to sense new opportunities in marketing innovation, rather than technological innovation. As the team leader said, ‘FAB is not a big firm. We don’t have enough slack resources to develop any novel technology. It could take a long time. For us, the most important thing is to know where and who the new customers are, and what their needs are’.

Within the first five months of designing a new business model, the team members not only visited and interviewed their prior customers at length, but also attended some industry exhibitions to sense new opportunities. The team eventually identified the furniture design firms as FAB’s new targeted market segment with special needs for good-enough quality, competitive price, rich colour and fast delivery time as the novel value proposition to guide further R&D toward product innovation. Because of the close teamwork, the information about the new customer and novel value proposition was shared quickly among the marketing and R&D departments. Then, the team members from the R&D department began to find new suppliers for raw fabrics and spent more than one month getting the new materials for the potential product. With the suppliers’ support, FAB China designed a new colour style for their fabrics, developed a new product prototype and tested the new prototype in multiple markets, including China, Denmark and the UK. Consequently,

the team successfully introduced the first product innovation as ‘*good enough*’ for the global mid-end market. It took eight months for FAB to get its initial BMI completed after the new aspiration was introduced.

PUM had an almost identical pattern to FAB from the high aspiration at the HQ level to the strong sensing capability and value creation in BMI at the subsidiary level. First, the HQ of PUM gradually upgraded the mandate for its Chinese subsidiary over time. In 2005, PUM established its subsidiary in Suzhou, China. The primary mandate of the subsidiary only focused on production for HQ due to the low production costs in China. However, given the fast growth of the market for industrial pumps in China, HQ gradually increased its expectation and support for the Chinese subsidiary. From 2009 to 2011, PUM built the sales department for directly selling and serving their customers in China and developed an R&D department in China to take charge of the worldwide market. By the end of 2011, the mandate for PUM’s subsidiary in China was to ‘provide the pump-related solutions portfolio to both high- and mid-end market segments in China’. By 2012, PUM had transferred all the primary functions to the Chinese subsidiary, including R&D, manufacturing and marketing. All such functional activities are important for sensing new opportunities and BMI. As one manager argued, ‘If the HQ did not have the ambition for the Chinese market, it would have been impossible to transfer all key resources and knowledge to China. Now with the long-term strategy for China, the HQ has invested lots of money in China’.

Table 3.2 Entrepreneurial Aspiration, Sensing Ability and Value Creation

Firms	Entrepreneurial Aspiration	Key Evidence	Sensing Capability	Key Evidence	Value Creation	Key Evidence
FAB	High	<ul style="list-style-type: none"> • Aspirational Mandate: Providing fabrics-related solutions to the global mid-end markets. • Aspirational Priority: <ul style="list-style-type: none"> * HQ transferred its product development function to China. * Top managers are fully supporting the BMI project. • Evolution of Aspiration: From sourcing to building the whole value chain for global middle customers. 	Strong	<ul style="list-style-type: none"> • Market Research Ability: <ul style="list-style-type: none"> * Identifying the new target customers: design companies * Identifying new customers' needs: cheaper but 'good enough' fabrics. • R&D Ability: <ul style="list-style-type: none"> * Identifying new materials for new products * Identifying new colour style of fabrics. 	Fast	<ul style="list-style-type: none"> • Novel value proposition: Good enough quality, competitive price, leading delivery time and rich colour. • Product Innovation: The prototype of woven mesh fabric & stretch fabric for the mid-end market. • Fast BMI Achievement: From high aspiration to BMI within 8 months.
PUM	High	<ul style="list-style-type: none"> • Aspirational Mandate: Providing a pump-related solutions portfolio for both high- and mid-end market segments in China. • Aspirational Priority: <ul style="list-style-type: none"> * HQ transferred its key resources of R&D, manufacturing and marketing to the subsidiary in China * HQ is fully supportive of BMI effort • Evolution of Aspiration: From low-cost production to a full value chain operation in China. 	Strong	<ul style="list-style-type: none"> • Market Research Ability: <ul style="list-style-type: none"> * Identifying the new customers: industrial gear-pump segment * Identifying new needs among existing customers: smaller and cheaper pumps. • R&D Ability: <ul style="list-style-type: none"> * Designing new gear-pumps * Designing new product features to meet new needs * Redesigning the configuration of pump portfolio 	Fast	<ul style="list-style-type: none"> • Novel value proposition: Low cost, selected performance features, quick delivery & good service. • Product Innovation: New design of CC and GP pumps for the mid-end market segment in China • Fast BMI Achievement: From high aspiration to BMI within 12 months.
EAR	Moderate	<ul style="list-style-type: none"> • Aspirational Mandate: <ul style="list-style-type: none"> * Subsidiary focuses on sales, technical service, assembly and sourcing. 	Moderate	<ul style="list-style-type: none"> • Market Research Ability: <ul style="list-style-type: none"> * Identifying new target customers: middle public hospitals and big private 	Moderate	<ul style="list-style-type: none"> • Novel value proposition: Superior service, good training & moderate Price. • Product Innovation:

		<p>* HQ has high expectations and demands to China growth.</p> <ul style="list-style-type: none"> • Aspirational Priority: * No slack resource for new opportunities * Top managers at HQ unwilling to change prior business model • Evolution of Aspiration: <p>From technical service to a half value chain operation in China (sales, sourcing and assembly).</p>		<p>hospitals</p> <ul style="list-style-type: none"> * Running ‘reverse innovation project’ * Visiting and interviewing potential customers and partners • R&D Ability: * No R&D at subsidiary * R&D at HQ did not attend the BMI project 		<p>* Not yet (The proposal about product combination was rejected by HQ.)</p>
BEE	Moderate	<ul style="list-style-type: none"> • Aspirational Mandate: <p>Subsidiary focuses on manufacturing and sales.</p> <ul style="list-style-type: none"> • Aspirational Priority: No resource slack for new opportunities * Closed its factory • Evolution of Aspiration: No change 	Moderate	<ul style="list-style-type: none"> • Market Research Ability: <p>Identifying the new target customers: bars, restaurants, international hotels.</p> <ul style="list-style-type: none"> • R&D Ability: * No R&D at Subsidiary * R&D at HQ attended the BMI project * Developed products prototype based on experience of European markets <p>Moderate</p>	<ul style="list-style-type: none"> • Novel value proposition: Low price, novelty & convenience/usability. • Product Innovation: * Not yet (The product newly developed in Europe did not meet the needs of Chinese customers.) 	
VET	Low	<ul style="list-style-type: none"> • Aspirational Mandate: <p>Subsidiary is a sourcing office.</p> <ul style="list-style-type: none"> • Aspirational Priority: * No slack resource for new opportunities * Focus on the high-end segment and building up an assortment to this segment • Evolution of Aspiration: No change 	Weak	<ul style="list-style-type: none"> • Market Research Ability: <p>Taking activities on the prior products with a high price</p> <ul style="list-style-type: none"> * No time to sense new opportunities on mid-end • R&D Ability: * No R&D at subsidiary. * R&D at HQ did not join the BMI project <p>Slow</p>	<ul style="list-style-type: none"> • Novel value proposition: * Not yet • Product Innovation: * Not yet 	
LIG	Low	<ul style="list-style-type: none"> • Aspirational Mandate: <p>Subsidiary only focuses on manufacturing.</p> <ul style="list-style-type: none"> • Aspirational Priority: 	Weak	<ul style="list-style-type: none"> • Market Research Ability: * Not yet • R&D Ability: * No R&D at subsidiary <p>Slow</p>	<ul style="list-style-type: none"> • Novel value proposition: * Not yet • Product Innovation: * Not yet 	

At the start of the BMI project, the PUM team did not know how to define and identify the mid-end market in China. As one team member noted, ‘our products are not consumer products. It is not easy to say who is at the mid-end market’. The best option was to sense possible new opportunities from one’s existing customers. The PUM team adopted the same principle as the FAB team that the customers’ need was the most important. ‘We cannot do research by closing our door. The first thing is to open the door and know the customer’s needs’, the manager of R&D department stressed. The marketing staff spent several months interviewing diverse customers in depth in order to sense new opportunities. During that period, they filtered many different ideas. Eventually, PUM China identified the industrial gear-pump segment as its new targeted customer market with a novel value proposition of low cost, selected performance features, quick delivery and good service. In other words, PUM selected to target the mid-end market with ‘good-enough’ products.

Despite the explicit standards of value opportunity, how to design new products was a still major challenge to the R&D department. ‘We need more information in detail’, one member at the R&D department noted. ‘We are very lucky. We got very important information from the sales department’. The important information was that one primary customer needed some smaller and cheaper pumps. The manager of the R&D department sensed it as a great opportunity because the new product could fit into the new business model. Hence, he sent some product designers to work with sales people and to visit the potential customer. Finally, the R&D team figured out the specific features of this new product to meet the new need from the new customer. Through good cross-functional teamwork, PUM China finally introduced two pump innovations for the mid-end market in China, meaning the initial value creation in BMI was complete. Comparable to FAB China, it took 12 months for PUM China to complete its initial BMI after the high aspiration was established.

Table 3.3 Links between Entrepreneurial Aspiration, Sensing Ability and Value Creation

<i>Firms</i>	<i>Dimensions</i>	<i>Qualities</i>	<i>Representative Quotes</i>
FAB	Entrepreneurial Aspiration	<i>High</i>	<ul style="list-style-type: none"> • ‘In 2004, the Chinese subsidiary mandate was resource seeking.... This low mandate has been changed. The Chinese subsidiary plays a very important role in targeting the mid-end market in China’. • ‘...we have transferred our product development and product line to China’.
	Sensing Capability	<i>Strong</i>	<ul style="list-style-type: none"> • ‘We have identified furniture design companies as our new customers. They are on the mid-end market.... They are very sensitive to price’. • ‘The new textile at 40 RMB price points has been tested at the UK laboratory and also at a Chinese lab’.
	Value Creation	<i>Fast</i>	<ul style="list-style-type: none"> • ‘...now, the new value opportunity is clear. The new customers need rich colour fabric with low price and good enough quality’. • ‘We spent almost 8 months developing new products. Now, we have developed two new product prototypes for the mid-end market’.
PUM	Entrepreneurial Aspiration	<i>High</i>	<ul style="list-style-type: none"> • ‘PUM China plays an important role in PUM’s global market. HQ has a strong ambition for the Chinese markets. Our Chinese subsidiary has changed its mandate several times’. • ‘HQ has transferred its key resource to the Chinese subsidiary. For example, we built a global R&D centre and product line in China’.
	Sensing Capability	<i>Strong</i>	<ul style="list-style-type: none"> • ‘The sales department conducted a big survey. They visited our prior customers many times. Now, we can identify the industrial gear-pump segment as our new segment’. • ‘People from the R&D department also interviewed the potential customers and tried to sense what they need.... We have developed new pumps for our new customers’.
	Value Creation	<i>Fast</i>	<ul style="list-style-type: none"> • ‘The novel value proposition is low cost, selected performance features, quick delivery and good service’. • ‘It took us around 9 months to develop a new product prototype. We also test them with our potential customers. Working with your customer is very important’.

	Entrepreneurial Aspiration	<i>Moderate</i>	<ul style="list-style-type: none"> • ‘We focus on sales and service. The mandate is very low, but HQ has high expectations and demands for China growth ... the top managers have ambitions for the Chinese market’. • ‘Sometimes, the position in China is contradictory.... It reduces the ability to sense new opportunities’.
EAR	Sensing Capability	<i>Moderate</i>	<ul style="list-style-type: none"> • ‘The new idea has been discussed with different potential customers and partners, and a business case has been made. The design companies are at present making a prototype for test purposes’. • ‘The board in DK are interested in the solution, but have not said “go”. I have to convince them.... Transferring key resources to China such as setting up an R&D function in China is difficult. I feel that HQ people are resisting this, as they may lose the decision power and control’.
	Value Creation	<i>Moderate</i>	<ul style="list-style-type: none"> • ‘Within the last 6 months, we have identified the novel value proposition for a new customer segment’. • ‘We have new product solutions for new customers. Our own products “just” have to be combined with some external designed and developed products.... Unfortunately, the solution was killed by HQ. They do not understand the Chinese markets’.
	Entrepreneurial Aspiration	<i>Moderate</i>	<ul style="list-style-type: none"> • ‘The Chinese factory only focuses on manufacturing and sales.... Maybe in the future, we will change its mandate. I am not sure’. • We lack the resources to run the new project. For example, we do not have a local sales team or R&D people to research more information, new opportunities’.
BEE	Sensing Capability	<i>Moderate</i>	<ul style="list-style-type: none"> • ‘We have two kinds of customers: direct customers and end customers. Domestic breweries and international breweries are our direct customers, and restaurants, bars, etc. are our end customers. The latter is our new segment’. • ‘We just closed our factory in China.... We do not have a local team for designing a new business model in China right now. People at HQ do not know what our Chinese customers need and want’.
	Value Creation	<i>Moderate</i>	<ul style="list-style-type: none"> • ‘We have identified the novel value proposition. It is very different from European customers. For example, they like low-priced products’. • ‘We do not have special products for Chinese markets. Our products were developed in Denmark’.
VET	Entrepreneurial Aspiration	<i>Low</i>	<ul style="list-style-type: none"> • ‘Our Chinese subsidiary mandate is only resource seeking. HQ lacks knowledge about the Chinese market. They [top managers] do not have long term and ambitious strategies and goals for China....’ • ‘Our subsidiary lacks resources; it only focuses on sourcing in China’.

			<ul style="list-style-type: none"> • ‘We are focusing a lot on the high-end segment and building up an assortment to this segment, sourcing products from China. We have little time to sense new opportunities and a new business model’. • ‘VET China has no local product developers.... No people from R&D at HQ participate in the project’. • ‘Our products are too expensive for the mid-end market... We lack resources for a new project. We lack knowledge about Chinese customers. In fact, we do not know what new value we have for the customers in the mid-end market’. • ‘We do not have new product solutions for the mid-end market. The first thing is to sell our prior products’. • ‘The innovation project did not have a high priority.... Our focus is to consolidate our existing mature markets.... The subsidiary was closed. Production has been moved to Denmark’. • ‘There are 4–6 employees who have remained only for sourcing... we are running the project at low resources, as there are other more important priorities we should do’. • ‘We believe that there is a huge market in China and we need to get hold of this market in some way, because currently we are not doing it right in China. The question is, however, how and what strategy to go for. We do not have a clear strategy for China’. • ‘There are no people who are responsible for sensing new opportunities in China’. • ‘We lack knowledge about the Chinese markets. For example, we do not know who our new customers are or what is of value to them’. • ‘We do not have a new product for the Chinese mid-end market’. 	<i>Weak</i>		
		Value Creation		<i>Slow</i>		
		Entrepreneurial Aspiration		<i>Low</i>		
LIG		Sensing Capability		<i>Weak</i>		
		Value Creation		<i>Slow</i>		

Hence, the cases of FAB and PUM were success stories with a shared pattern initiating from the high aspirations at the HQ level to the strong sensing capabilities and successful and fast value creation at the subsidiary level. Notably, the aspirations of HQ in both cases went through an evolutionary process from initially low aspirations (both low mandate and low priority) to the recently high aspirations (both high mandate and high priority) as the shared historical trajectories for both FAB and PUM. It is also interesting that the sequence from novel value proposition to product innovation is the same in both cases of FAB and PUM. It seems that this sequence is critical to BMI as the outcome of the strong sensing capability at the subsidiary level and the high aspiration at the HQ level. In contrast, the other four cases in the group were less successful in BMI for diverse reasons, but a shared theme was that they all suffered from a lack of high aspirations at the HQ level and a lack of high sensing capabilities at the subsidiary level. The data showed that the lack of high aspirations at the HQ level had a negative effect on the sensing capabilities at the subsidiary level, which, in turn, had a negative impact on the BMI at the subsidiary level.

The data shows that the four subsidiaries of EAR, VET, BEE and LIG in China all had lower aspirations at the HQ level (with both low mandate and low priority), and lower sensing capabilities at the subsidiary level than the Chinese subsidiaries of FAB and PUM. In the intriguing case of EAR, the general manager of EAR China had a high ambition to sense new opportunities, but he failed because he lacked the necessary resources to test his new ideas. Within the past six months, he had changed his core ideas about the new business model several times. The main reason was that, even though the HQ had a moderate aspiration, the HQ lacked the commitment to develop a new business model and refused to transfer any key resources to China. Just as the general manager said, 'I really believe that HQ has a high aspiration for the Chinese market, but the HQ lacks its commitment to the new business model because the top managers worry about the risk of the new business model. That is why HQ refuses to transfer power to the subsidiary. We do not have any resources to test and try our ideas about our possible new business model'. The repeated attempts of the subsidiary were rejected by the HQ. Consequently, EAR China had a new value opportunity for

the Chinese market, but it failed to come up with a product innovation to embody the proposition. Similarly, the subsidiary of VET in China primarily focused on the sourcing of existing products in China. The HQ took China primarily as a good sourcing site, so it ignored China as an emerging new market. The HQ did not intend to transfer any key value-chain activities to China. Worse still, the marketing department at the HQ was even unwilling to put local staff on the team to design BMI for China. The marketing people at the HQ did not have initial knowledge about China because they spent too little time in China to learn about the local market. This explains why they were very slow in the process of BMI. Eleven months after the project started, the team had still not decided upon which product mix to sell in China. As a local manager said, 'I made a proposal for the HQ and Board in Denmark showing what it would take to increase sales and still got no satisfactory response from them. The HQ management and the board nodded in agreement, but no action or decision has been made yet, which frustrated me. I just don't like to let this opportunity go'. The product recently developed in Europe did not meet the needs of the customers in China. Similar to EAR, VET China had a novel value proposition for the Chinese market, but it failed to come up with a product innovation to embody the value proposition.

The lack of aspiration was shared by the remaining two cases of VET and LIG with their unique twists. In the case of BEE, although the top managers recognised the potential growth in the draft beer market at the infancy stage in China, they did not grant the mandate to the subsidiary. However, BEE had had a joint venture with a group of Chinese partners since 1994 fully devoted to manufacturing. Largely due to the deteriorating relationship with the Chinese partners, BEE had not transferred any key functions such as marketing, R&D and human resource management to China. As a result, the Chinese subsidiary had a low resource priority. Worse still, BEE had recently closed the joint venture in China, but it planned to build a new factory in the near future. This negatively interrupted the process of BMI in BEE. Similarly, LIG suffered from the problem of interruption caused by the closing of its own factory. In 2003, LIG set up a factory in China as the manufacturing site for the global market. In 2011, the HQ saw great potential in the emerging

markets with the need for a new product line targeting the mid-end market in China and other emerging markets. As one manager said, ‘designing a new business model is not only necessary for being successful in China. We have also experienced lost projects in the Western countries because our products are too expensive. We see the big growth potential in emerging countries. However, our commitment and strategic focus is insufficient for China compared to other countries’. Even though the HQ of LIG saw the potential growth in China, it lacked the commitment and knowledge about the Chinese market. When the HQ learned about their products being copied by local competitors, HQ failed to take any proper actions to protect its own brand and, instead, closed the subsidiary in China in 2012, thus reducing the original mandate for the Chinese subsidiary. Relative to other markets, the Chinese market now had a low priority, which substantially slowed down the process of its BMI for the Chinese mid-end market.

In sum, the data from the six cases showed the salient impact of the entrepreneurial aspiration at the HQ level on value creation in BMI at the subsidiary level with sensing capability as the mediator. Aspirational mandate and aspirational priority are the two elements of entrepreneurial aspiration, which serves as the first enabler for BMI at the subsidiary level. The insight is that, for successful BMI at the subsidiary level, high aspirations in terms of a high strategic mandate and a high strategic priority for the subsidiary is necessary to enhance sensing capability at the subsidiary level, which, in turn, is the necessary facilitator for BMI at the subsidiary level.

Why is a high entrepreneurial aspiration at the HQ level a salient enabler for both the sensing capability and value creation in BMI at the subsidiary level, especially in the context of a top-down venture by MMNEs? The first reason is the positive impact of a high mandate on the *motive* at the subsidiary level to take a higher-than-normal *risk* as an international strategic entrepreneur. This is because of two possible factors: (1) higher pressure on the subsidiary to take a higher risk as demanded by the higher mandate and (2) greater incentive to take the higher risk as fostered by the higher mandate, which encourages the subsidiary to prioritise the longer-term interest as the stronger incentive in the balance between their short- and long-term interests. If they focus on their

short-term interests, they tend to exploit the current business model rather than taking the risk of exploring BMI, given the learning myopia (Levinthal and March, 1993). Compared to other typical innovations (e.g. product/service, process and marketing innovations), BMI is a higher-order innovation with the highest risk. This is especially true for established firms, including both large and MMNEs. The special challenge to all established firms is that BMI is often confronted by the strong internal resistance, given the typical conflict between the new and current business models, especially when the underlying configuration of assets is embedded in the current business model (Zott and Amit, 2010). Further, the resistance will be stronger if the new business model involves high uncertainty (Chesbrough, 2010). However, if HQ has high aspirations for its subsidiaries, the subsidiaries will take the bigger risk and overcome the resistance by focusing on the longer-term interests and novel ways to reach the high goal. This will enhance the motive of the subsidiary to sense new opportunities. This insight is consistent with the literature on organisational aspiration as salient to high organisational performance (e.g. Ansoff, 1979; Cyert and March, 1963; see Shinkle, 2012 for a review). This motive is made more salient and imperative by the special context of a top-down venture for a mid-end market as the ‘unchartered water’.

The second reason is the positive impact of high priority on the *ability* at the subsidiary level with the prioritised *access* to key resources, thus improving the capability to sense new opportunities for BMI. As Teece (2007: 1322) specifically pointed out, ‘sensing new opportunities is very much a scanning, creation, learning, and interpretive activity. Investment in research and related activities is usually a necessary complement to this activity’. Although there are many new opportunities in emerging markets, it is not necessarily easy for MMNEs from advanced markets to sense those new opportunities because there are many local competitors with greater sensibility to the same opportunities than that of foreign MNEs. ‘When opportunities are first glimpsed, managers must figure out how to interpret new events and developments, which technologies to pursue, and which market segments to target’ (Teece, 2007, 1322). If a firm wants to create value out of opportunity, it definitely needs certain slack resources. Such ability is made more salient and imperative by the

special context of a top-down venture for a mid-end market as the ‘unchartered water’. For example, the general manager of EAR sensed several new opportunities, but he was unable take any action because he lacked the necessary resources. In LIG, the team members also saw the potential growth opportunities in the Chinese market, but the HQ’s commitment to China was much weaker than other markets. Hence, the lack of resources hurt the sensing capability for BMI. This ability is made more salient and imperative by the special context of a top-down venture for a mid-end market as the ‘unchartered water’. In sum, risk-taking (related to motive) and prioritised access (related to ability) serve as two mechanisms for the entrepreneurial aspiration of HQ to enable value creation for BMI, with sensing capability as the mediator at the subsidiary level. Based upon the above line of argument, we develop the first set of propositions below:

Proposition 1: For MMNEs engaging in top-down ventures, the high entrepreneurial aspiration of HQ (in terms of mandate for the motive and priority for the ability of the subsidiary) will enable value creation (as a dimension of BMI in terms of novel value proposition and product innovation) via facilitating sensing capability (as a dimension of dynamic capability in terms of market research ability and R&D ability) at the subsidiary level.

Proposition 2: The special context of a top-down venture for a mid-end market in an emerging economy by a MMNE will specify the first sub-path from market research ability to novel value proposition and the second sub-path from R&D ability to product innovation.

3.4.2 From HQ Flexibility to Subsidiary Value Capture via Seizing Capability

The case evidence in this study shows that the entrepreneurial flexibility at the HQ level greatly enables the ability to seize new opportunities at the subsidiary level, which, in turn, serves as a core facilitator for value capture as an accelerated outcome at the subsidiary level. Hence, the higher entrepreneurial flexibility of HQ leads to a stronger ability to seize new opportunities (one of the dual dimensions of dynamic capability) and greater value capture (one of the dual dimensions of BMI) at the subsidiary level. We refer to *entrepreneurial flexibility* in this study as the *scope* and *speed* of accommodation from HQ for its subsidiary to develop an effective BMI in the shortest time after its initial entry into an emerging market as a top-down venture (cf. De Toni and Tonchia, 2005; Sanchez, 1995). From the data in the study, we identified two primary elements of entrepreneurial flexibility at the HQ level as readily applicable to the dynamic capability and BMI

at the subsidiary level: (1) *strategic flexibility* (referring to the *scope* of HQ's higher-order accommodation to provide strategic decision-making power and incentives for the top management team of the subsidiary to achieve effective BMI), and (2) *operational flexibility* (referring to the *speed* of HQ's lower-order accommodation to react swiftly to the requests from the subsidiary to restructure the prior value chain to achieve effective BMI). Further, since the seizing dimension of dynamic capability is a special ability for both decision-making and decision implementation for resource configuration and task coordination across the whole value chain (cf. Mizik and Jacobson, 2003; Teece, 2007), we operationalised the seizing capability *indirectly* via the functional activities of *upstream* value-chain configuration and coordination and *downstream* value-chain configuration and coordination in a coordinated pattern.

In other words, we framed the key activities of managing upstream and downstream value-chains as the primary embodiments of upstream and downstream value-chain design abilities. Finally, we operationalised the value capture dimension of BMI in terms of novel cost architecture and novel revenue architecture as the outcomes of integrating the functions of manufacturing and marketing in a coordinated pattern (cf. BCG, 2009; KPMG, 2006; Osterwalder and Pigneur, 2010). We take novel cost architecture and novel revenue architecture as the specific measures of *exchange value* related to value capture, in contrast to both novel value proposition and product innovation as the specific core measures of use value (cf. Bowman and Ambrosini, 2000; Mizik and Jacobson, 2003; Lepak et al., 2007).

We used the qualitative assessments from the informants to measure the degree of entrepreneurial flexibility at the HQ level and the degree of seizing capability at the subsidiary level. Based on the key activities and events, we rated the entrepreneurial flexibility of HQ and seizing capability of subsidiary in three categories: high, moderate and low. Tables 3.4 and 3.5 summarise the specific data for both entrepreneurial flexibility and seizing capability in terms of key activities and events. In addition, we identified the historical trajectories as the evolutionary patterns of such flexibilities.

Table 3.4 Entrepreneurial Flexibility, Seizing Capability and Value Capture

Firms	Entrepreneurial Flexibility	Key Evidence	Seizing Capability	Key Evidence	Value Capture	Key Evidence
FAB	High	<ul style="list-style-type: none"> • Strategic flexibility: <ul style="list-style-type: none"> * Highly decentralised for subsidiary * Subsidiary as a semi-independent unit * HQ retained final control over global R&D • Operational flexibility: <ul style="list-style-type: none"> * Had a highly flexible policy for product development * Had a highly responsive technological support from HQ 	Strong	<ul style="list-style-type: none"> • Upstream Design Ability: <ul style="list-style-type: none"> * Selected new raw materials * Selected new suppliers and expanded the pool of suppliers • Downstream Design Ability: <ul style="list-style-type: none"> * Built new sales team for new products * Launched new products 	Fast	<ul style="list-style-type: none"> • Novel revenue architecture: <ul style="list-style-type: none"> Selected a designated sales force for the mid-end market, which added a new source of revenue from the fast-expanding furnish design markets (mid-end market) in China. • Novel cost architecture: <ul style="list-style-type: none"> Substituted expensive wool fabric with cheaper non-wool fabrics with a shorter-term warranty to reduce the cost of the new product.
PUM	High	<ul style="list-style-type: none"> • Strategic flexibility: <ul style="list-style-type: none"> * Highly decentralised for subsidiary to make all major decisions * HQ retained final control over global R&D • Operational flexibility: <ul style="list-style-type: none"> * Had a highly responsive and cooperative effort in new product development * Had a highly flexible policy for selecting core suppliers 	Strong	<ul style="list-style-type: none"> • Upstream Design Ability: <ul style="list-style-type: none"> * Reconfigured supply-chain in China * Built new factory for components to reduce cost • Downstream Design Ability: <ul style="list-style-type: none"> * Rebuilt sales team for new products * Advertised for new products * Captured one big Chinese Electric firm * Sold more than 200 new units to new customers 	Fast	<ul style="list-style-type: none"> • Novel revenue architecture: <ul style="list-style-type: none"> Added a new source of revenue from the fast-expanding industrial pumps markets (mid-end market) in China • Novel cost architecture: <ul style="list-style-type: none"> Redesigned its pumps by reducing their features and also their sizes to be cost-effective
EAR	Low	<ul style="list-style-type: none"> • Strategic flexibility: <ul style="list-style-type: none"> * Highly centralised control at HQ • Operational flexibility: <ul style="list-style-type: none"> * Rigid policy and slow process for product development, market development and human resource management 	Weak	<ul style="list-style-type: none"> • Upstream Design Ability: <ul style="list-style-type: none"> * Plan to build new supply chain in China – importing parts from DK and assembling them to finished goods in China * Plan to set up local sourcing of parts at local costs • Downstream Design Ability: 	Slow	<ul style="list-style-type: none"> • Novel revenue architecture: <ul style="list-style-type: none"> Not yet • Novel cost architecture: <ul style="list-style-type: none"> Not yet (Solution of moving production to China is a complete copy-paste solution, no change to the cost structure) (The new revenue solution by

				Plan to reconfigure distributor and improve the direct sales power		charging aftersales service was killed by HQ)
BEE	Low	<ul style="list-style-type: none"> • Strategic flexibility: <ul style="list-style-type: none"> * Highly centralised control at HQ * HQ decided new business model without support from subsidiary • Operational flexibility: <ul style="list-style-type: none"> * Rigid policy and slow process in all functional areas except for sourcing 	Weak	<ul style="list-style-type: none"> • Upstream Design Ability: <ul style="list-style-type: none"> * Plan to make a new factory in China * Starting to look for potential suppliers to reduce cost • Downstream Design Ability: <ul style="list-style-type: none"> Not yet (Hired a new sales manager in China but does not participate in BMI project) 	Slow	<ul style="list-style-type: none"> • Novel revenue architecture: <ul style="list-style-type: none"> Not yet (Sold prior products in China to local players through partners) • Novel cost architecture: <ul style="list-style-type: none"> Not yet (HQ is demonstrating the project of downsizing (cost down) of the products for Chinese market)
VET	Low	<ul style="list-style-type: none"> • Strategic flexibility: <ul style="list-style-type: none"> * Highly centralised control at HQ * HQ had little knowledge about • Operational flexibility: <ul style="list-style-type: none"> * Rigid policy and slow process in all functional areas except for sourcing 	Weak	<ul style="list-style-type: none"> • Upstream Design Ability: <ul style="list-style-type: none"> * Started up different sourcing projects focusing on cost saving for existing markets * Plan to look at local suitable products for China only • Downstream Design Ability: <ul style="list-style-type: none"> * Building up sales network/distribution channel for prior products 	Slow	<ul style="list-style-type: none"> • Novel revenue architecture: <ul style="list-style-type: none"> Not yet (Focusing on high-priced segment and selling products in the assortment for existing markets) • Novel cost architecture: <ul style="list-style-type: none"> Not yet (Some of products price is 5-10 times that of local products. Present assortment is too high priced and not hitting the mid-end market)
LIG	Low	<ul style="list-style-type: none"> • Strategic flexibility: <ul style="list-style-type: none"> Not yet (LIG was bought by the multinational company – no clear strategy for China) • Operational flexibility: <ul style="list-style-type: none"> Not yet (LIG was bought by the multinational company – no clear strategy for China) 	Weak	<ul style="list-style-type: none"> • Upstream Design Ability: <ul style="list-style-type: none"> Not yet (Plan is to start sourcing two low-cost products in China for the Chinese market, to use local OEM manufacturers) • Downstream Design Ability: <ul style="list-style-type: none"> Not yet 	Slow	<ul style="list-style-type: none"> • Novel revenue architecture: <ul style="list-style-type: none"> Not yet • Novel cost architecture: <ul style="list-style-type: none"> Not yet

With substantially redesigned business models qualified as BMI, both FAB and PUM explicitly showed their shared features of high strategic flexibility and operational flexibility as well as strong seizing capability at the level of their subsidiaries in China. FAB had created not only novel value proposition and product innovation, but also novel cost architecture and revenue architecture to capture value. The key is that FAB's subsidiary was accommodated by its HQ with high strategic flexibility in the process of BMI. The scope of accommodation from the HQ for the subsidiary was wide enough for most major decisions to be delegated to the subsidiary, including the responsibilities for production, sourcing and marketing. The HQ regarded the subsidiary as an independent unit with the power to make strategic decisions about the BMI project. The CEO of FAB recognised that the HQ in Denmark lacked knowledge about the local market in China; thus, he vigorously implemented the decentralised system. Under this system, the general manager of the subsidiary had the power to hire, evaluate, motivate and dismiss all employees in the subsidiary.

The subsidiary of FAB also obtained high operational flexibility to reconfigure the value-chain activities in China. One challenge to FAB was that its textile products could be copied easily with low possibility of legal protection. The primary reason was that some of the clients did not honour the partnership agreements with FAB. The only way that FAB could cope with this issue was to be ahead of the competitors by developing new fabric types and different colour patterns. This strategy required high flexibility in redesigning its upstream value-chain activities. For those decisions that must be approved by the HQ, the response from the HQ to accommodate their requests was swift and highly cooperative. As one manager at the HQ said, 'I have been to China many times. I know everything is changing very fast there. We need to make fast decisions for that market, or we lose the new opportunities'. For example, FAB's HQ retained the R&D function in Denmark that was responsible for the firm-wide technical support and knowledge transfer. To enhance the speed of cooperation, the HQ redesigned its original processes in R&D, changed its previous working style and adopted a highly flexible policy for product development. Hence, in the process of designing the new product for the BMI project, FAB set up a multi-country design team, which included two

members from the local design department in China, one designer from the HQ and one member from the local marketing department. Further, FAB's R&D policy could be best described as 'working with key customers'. As a member of the BMI project specifically said, 'we have a cooperative product development mechanism between our HQ and subsidiary'.

The above activities of the HQ enabled the ability to seize new opportunities at the subsidiary level in terms of redesigning both upstream and downstream value-chain activities, which in turn enabled the BMI in terms of both novel cost and revenue architectures. Specifically, FAB substituted their expensive wool fabric with cheaper non-wool fabrics and a shorter-term warranty to reduce the cost of the new product. FAB also selected a designated sales force for the mid-end market, which added a new source of revenue from the fast-expanding mid-end market in China.

In the case of PUM, within only 12 months, it not only selected a novel product architecture to implement its new value opportunity with two product innovations, but also manufactured these two new pumps (with a redesigned upstream value-chain) and sold more than 200 units (with a redesigned downstream distribution chain). The team managers from PUM explained the fast success by identifying the extremely high empowerment from the HQ for the top managers at the subsidiary to make all major decisions, which accelerated the pace of implementation. For example, the general manager at the subsidiary was a Dane who had a strong relationship with the HQ and rich experience in the Chinese market because he had been in China for more than eight years. He gained a strong level of trust from the HQ with the widely delegated decision-making power, including in the areas of overall strategy and strategic human resource management (e.g. managing the top management team at the subsidiary). Specifically, with the coordination from the human resource management department at the HQ, the general manager had the power to evaluate all other senior managers at the subsidiary level. At the same time, the top managers were empowered to evaluate the middle-level managers and the frontline employees at the subsidiary level.

Further, the top managers at the subsidiary of PUM were also empowered by the HQ in the area of operational flexibility. In the previous business model, PUM's pumps were more expensive than

those of local competitors because the core components were imported from Europe with high costs. In order to meet the needs of the new customers in China with the new value opportunity in terms of low cost, fast delivery and good service, the subsidiary was granted the power to identify local suppliers and source local components in China. This action reconfigured PUM's supply-chain in China. The top managers both at the HQ and the subsidiary were aware of the importance of low prices to the new customers in China's mid-end market. The top managers at the HQ coordinated with the top managers at the subsidiary to initiate a new project, called '*cost down*' project. The key goal of this project was to reconfigure the value chain in China in order to gain the competitive advantage of low price and fast delivery. As part of the project, PUM built a new factory in another city in China, where the costs of labour and land were lower than those of the old factory in Suzhou, China. After this project, the subsidiary was given bigger decision-making power in the area of value-chain configuration to coordinate manufacturing with marketing/sales. As one team member at the subsidiary noted, 'our top managers have a big power to reconfigure the value chain in China for our new business model'. It is clear that the flexibility of the HQ enables the seizing capability and BMI at the subsidiary level. Specifically, to be more cost-effective, PUM redesigned its pumps by removing the redundant features, reducing the sizes and sourcing all components locally. With new pumps for new industries, PUM added a new source of revenue from the fast-expanding mid-end market in China.

In contrast, the other four cases were unsuccessful in BMI, and they shared the same theme in that they all experienced low flexibility at the HQ level, and consequently low seizing capability at the subsidiary level. The data show that the low flexibility (both strategic and operational flexibility) at the HQ level had a negative effect on the seizing capability at the subsidiary level, which, in turn, had a negative impact on BMI at the subsidiary level. In the case of EAR, the general manager in China had a strong entrepreneurial spirit and rich experience in the Chinese market. At the beginning of the BMI project, he had strong confidence and believed that EAR could design a novel business model for the mid-end market in China because he had many good ideas and insights.

Unfortunately, the Chinese subsidiary suffered from low strategic and operational flexibilities as measured by the narrow scope and low speed of HQ's accommodation for the subsidiary's requests. The general manager had no decision-making power to test his insights and convert his ideas into actions because the HQ tried to control too much. Even though the HQ required the general manager of the subsidiary to introduce some changes in the Chinese operation, he could not act fast enough to seize any of the new opportunities because of the long and rigid decision-making process at the HQ. He was limited to selling only the existing line of products. As the general manager said, 'the only thing I can do is wait. The decision-making process is so slow. Maybe they (i.e. the top managers at the HQ) do not trust me. I cannot share the power to make decisions. They try to control everything in the Chinese office by their ERP system. I have no resources or people to test and implement my ideas. So, you can understand why the process of BMI is very slow'. In the similar case of VET, the China subsidiary was regarded only as a sourcing department, which had limited power to make the decisions regarding BMI. The top managers at the HQ did not trust the people at the subsidiary. For example, the HQ sales department was not willing to put any local staff on the task force for the BMI project.

In BEE, both strategic flexibility and operational flexibility were low at the HQ because the China subsidiary (i.e. a joint venture) was engaged in a lawsuit with the Chinese partners. The HQ tried to take over the joint venture from the Chinese partners. This matter negatively affected the pace of BMI. Although the team members of BMI project at the subsidiary sensed new opportunities with new customers and new value opportunity, they could not seize the new opportunities because the subsidiary had no power to make key decisions. Worse still was that the HQ stopped negotiating with the Chinese partners and closed its factory in China.

Similar to BEE, LIG also closed its factory in China in the middle of the BMI project and moved its factory back to Demark. This event had a seriously negative effect on the seizing capability at the subsidiary level because the team leader of the BMI project left the firm. They lacked the benefit of the local staff with broad experience in the Chinese market to manage the BMI project.

After closing the factory, LIG decided to rely mostly on local sourcing from the Chinese OEM manufacturers. The new plan was to start sourcing two low-cost products in China for the local mid-end market, but the speed of designing the BMI was extremely slow since the HQ in Denmark had to make all major decisions far away from the subsidiary in China.

In sum, the data from the six cases showed the salient impact of high entrepreneurial flexibility at the HQ level on value capture in BMI, with seizing capability as the mediator at the subsidiary level. We have identified strategic flexibility and operational flexibility as the two core components of entrepreneurial flexibility, which can serve as the second enabler for BMI at the subsidiary level. The key insight is that, for successful BMI at the subsidiary level, high flexibility in terms of high strategic flexibility and high operational flexibility for a subsidiary is necessary to enhance the seizing capability at the subsidiary level, which, in turn, is necessary for BMI at the subsidiary level.

Table 3.5 Links between Entrepreneurial Flexibility, Seizing Capability and Value Capture

Firms	Dimensions	Qualities	Representative Quotes
FAB	Entrepreneurial Flexibility	<i>High</i>	<ul style="list-style-type: none"> • ‘The general manager at the China subsidiary has the full power to make strategic decisions about the BMI project.... The final decision makers for China are the China GM – not the design and quality department in Denmark’. • ‘We have a good relationship with the R&D department at HQ. The process and policy are very flexible. And the speed of response is very fast’.
	Seizing Capability	<i>Strong</i>	<ul style="list-style-type: none"> • ‘We are looking into expanding our pool of suppliers, so that we have suppliers that are experienced and ready for producing the mid-end market quality level’. • ‘...we have increased the sales force with extra people, so now we have salespersons split between offices in Shanghai, Beijing and Shenzhen...’
	Value Capture	<i>Fast</i>	<ul style="list-style-type: none"> • ‘The cost structure of new products is different from those for the old products. We use the new raw materials which can reduce the price. Although the warranty is little shorter than the prior expensive products, the quality is good enough.... We also reduce our customers cost’. • ‘...in the new business model, our products portfolio cover both high end markets and mid-end markets. The new products will add a new source of revenue from the fast-expanding mid-end market...’
PUM	Entrepreneurial Flexibility	<i>High</i>	<ul style="list-style-type: none"> • ‘Our top managers have a big power to reconfigure the value chain in China for our new business model’. • ‘...innovation needs flexibility. At our HQ, the process of decision making is very flexible.... PUM China has enough resources and power to design, test and revise the new business model’.
	Seizing Capability	<i>Strong</i>	<ul style="list-style-type: none"> • ‘In order to reduce the products price, we built a new factory for components to reduce cost... We are also reconfiguring the supply chain in China. For example, we buy some components from a local supplier, not export from Europe’. • ‘We have redefined the sales staff responsibilities. Now, there is a team for selling new products. We have sold some units to one big Chinese firm’.
	Value Capture	<i>Fast</i>	<ul style="list-style-type: none"> • ‘We reduced the new pumps price by reducing their features and their sizes. And, we also reduced the price by using local components in China’. • ‘Now, we have a rich product portfolio in different pump areas. The new pumps could add revenue from the industrial pumps markets’.

EAR	Entrepreneurial Flexibility	<i>Low</i>	<ul style="list-style-type: none"> • ‘The only thing I can do is wait. The decision-making process is so slow.... They [HQ] try to control everything by the ERP system....’ • ‘The general manager at the subsidiary has no power to hire new employees or adjust HR policies to run the new project.... The process for product development and new business is rigid.’
	Seizing Capability	<i>Weak</i>	<ul style="list-style-type: none"> • ‘We have defined a phased plan for China. Phase 1: Local production....setting up a local business and production. Importing parts from DK and assembling them to finished goods in China; Phase 2: Cost down.... setting up local sourcing of parts at local costs. Focus in reducing costs and sourcing components from the local Chinese market; Phase 3: Local development....’ • ‘The top management at HQ is slowing the process down. They do not understand the market, mainly because they are not in China often enough.’
	Value Capture	<i>Slow</i>	<ul style="list-style-type: none"> • ‘The process of moving production to China is managed by the HQ in Denmark. It is a complete copy-paste solution, not adapted at all to local conditions.... It is not useful for reducing costs.’ • ‘In China, the customers are willing to pay for aftersales service. This is a good business.... To accommodate the demand for this we want to hire around 20 new engineers who can serve the customers. However, HQ is reluctant to decide upon this.... even though this business case demonstrates a payback time of less than 1 year!’
BEE	Entrepreneurial Flexibility	<i>Low</i>	<ul style="list-style-type: none"> • ‘The project manager (new business model) has not enough autonomy....’ • ‘We have considered establishing R&D in China, but the bad experience with Chinese partners has caused R&D to stay in Denmark.’
	Seizing Capability	<i>Weak</i>	<ul style="list-style-type: none"> • ‘We are now planning to make a new factory in China as a complete copy of the factory in Denmark. The China factory is going to manufacture a third of the production.’ • ‘It is very difficult to get information from the market, as sales don’t want R&D people to make direct contact to the breweries or bartenders’.
	Value Capture	<i>Slow</i>	<ul style="list-style-type: none"> • ‘There is no clear strategy to reduce costs. We are demonstrating the cost down project for Chinese markets.’ • ‘Now, we are selling prior products in China to local players through partners.’
VET	Entrepreneurial Flexibility	<i>Low</i>	<ul style="list-style-type: none"> • ‘People who make big decisions at the HQ lack knowledge about Chinese customers, competitors, and ...’ • ‘I had made a proposal for the HQ and Board in DK showing what it would take to increase... HQ management and the board nodded, but no action or decision has been made yet.’
	Seizing Capability	<i>Weak</i>	<ul style="list-style-type: none"> • ‘We have started up different sourcing projects focusing on cost saving for existing markets (high end markets)... These products are too expensive for the mid-market’. • ‘Some of our main challenges and issues to solve are to map the distribution network and channels to use. Today the distribution channel is far too long, which makes costs and time

			an issue. We have ideas, but need some facts about channels and what to do and who to contact’.
	Value Capture	<i>Slow</i>	<ul style="list-style-type: none"> • ‘Our products are in the high end – some of our products are a factor 5–10 higher than local products. However, the quality is also much higher. Our present assortment is too high priced and not hitting the mid-market where the big volume is’. • ‘There is no revenue from new products. Our current strategy from HQ has been to focus on the high-priced segment, enabling the subsidiary to sell the products that we already have in the assortment for our existing markets’.
	Entrepreneurial Flexibility	<i>Low</i>	<ul style="list-style-type: none"> • ‘We think there is a huge market, and we need to get hold of this market in some way, because currently we are not doing it right in China. The question is, however, how and what strategy to go for’. • ‘LIG has just been bought by a multinational company. Now, our main focus is BRIC, especially Brazil and India at present. In Q2 2013, we will possibly start focusing on China’.
LIG	Seizing Capability	<i>Weak</i>	<ul style="list-style-type: none"> • ‘The plan is to start sourcing two low-cost products in China for the Chinese market, meaning manufactured in China for China’. • ‘The strategy will be to use local OEM manufacturers’.
	Value Capture	<i>Slow</i>	<ul style="list-style-type: none"> • ‘The future plan was to find OEM suppliers in China that can produce finished good products for the local Chinese market’. • ‘The project for China mid-end was temporarily stopped, other emerging markets are more important’.

Why is high entrepreneurial flexibility at the HQ level a salient enabler for both the seizing capability and value capture in BMI at the subsidiary level, especially in the context of a top-down venture by an MMNE? The first reason is the positive impact of high flexibility on the *motive* at the subsidiary level in terms of *empowerment* as an international strategic entrepreneur. According to prior research, empowerment can enhance employee performance, wellbeing and positive attitudes (see Maynard, Gilson and Mathieu, 2012 for a review). The data in this study show that the managers of subsidiaries who enjoyed higher empowerment from the HQ had a stronger sense of trust, responsibility and accountability, all of which are highly conducive to the ability to seize new opportunities for BMI. For example, the team leader of FAB believed that the HQ trusted her. This strong sense of trust facilitated the senses of responsibility and accountability, thus motivating her to take proactive initiatives to meet all new challenges in the process of BMI. In contrast, the general manager of EAR subsidiary complained that the HQ did not trust him, which negatively affected the senses of responsibility and accountability, making him reluctant to try harder in the process of BMI. Hence, we argue that coordination flexibility, especially the strategic type, is directly related to the seizing capability and indirectly related to the value capture in BMI through the primary mechanism of empowerment. This insight is consistent with the view of coordination flexibility as salient to high organisational performance (e.g. De Toni and Tonchia, 2005; Sanchez, 1995). This motive is made more salient and imperative by the special context of a top-down venture for a mid-end market as the ‘unchartered water’.

The second reason is the positive impact of high flexibility on the *ability* at the subsidiary level in terms of *cooperation* toward an international strategic entrepreneur. According to prior research, cooperation can enhance the access to complementary resources (Teece, 1986). Notably, novel value-chain configuration often requires novel elements in its resource profile (Floyd & Lane, 2000). In the case of MMNEs, a subsidiary often does not have a complete supply of necessary resources within its direct control, meaning it must cooperate with the HQ to access resources that are unavailable at the subsidiary level. The data in this study show that the value chain of the subsidiary

is often incomplete; thus, it must rely on the support and cooperation from the HQ. In such an interdependent tie, flexible cooperation between the HQ and subsidiary is critical. For example, in the case of FAB, even although the HQ controlled the R&D function, this concentrated control did not cause problems for the seizing capability and value capture in BMI at the subsidiary level because the HQ was highly flexible and responsive in its cooperation with the subsidiary, especially by treating the subsidiary as a partner through establishing a joint design team with key people from the HQ and subsidiary.

In contrast, in the cases of EAR and BEE, the HQ's rigid control restricted the timely cooperation needed between the HQ and the subsidiary, which slowed BMI. Because the internal cooperation of a firm differs from its external cooperation (see Hillebrand and Biemans, 2003 for a review), we focus on the internal cooperation of MNEs. However, research on the HQ-subsidary link tends to focus on their vertical tie for control rather than their horizontal tie for cooperation (see Paterson and Brock, 2002 for a review); therefore, we highlight the integration of both empowerment for the vertical tie and cooperation for the horizontal tie. This ability is made more salient and imperative by the special context of a top-down venture for a mid-end market as the 'unchartered water'. In sum, empowerment (related to motive) and cooperation (related to ability) serve as two mechanisms for the entrepreneurial flexibility of the HQ to enable value capture in BMI, with seizing capability as the mediator at the subsidiary level. Based upon the above line of argument, we develop the second set of propositions below:

Proposition 3: For an MMNE engaging in a top-down venture, the high entrepreneurial flexibility of the HQ (in terms of strategic flexibility for the motive and operational flexibility for the ability of a subsidiary) will enable value capture (as a dimension of BMI in terms of novel revenue architecture and novel cost architecture) via facilitating seizing capability (as a dimension of dynamic capability in terms of downstream design ability and upstream design ability) at the subsidiary level.

Proposition 4: The special context of a top-down venture for a mid-end market in an emerging economy by an MMNE will specify the first sub-path from downstream design ability to novel revenue architecture and the second sub-path from upstream design ability to novel cost architecture.

3.4.3 Secondary Effect and Feedback Loop

In addition to the above primary effects along the two primary paths, two additional factors emerged from the data. First, the two primary paths from the entrepreneurial aspiration of the HQ to the sensing capability and value creation at the subsidiary level as well as from the entrepreneurial flexibility of the HQ to the seizing capability and value capture at the subsidiary level are interrelated in the sense that there is a *secondary* effect of entrepreneurial aspiration on seizing capability and value capture as well as a *secondary* effect of entrepreneurial flexibility on sensing capability and value creation. The related secondary effects also derive from sensing capability to value capture as well as from seizing capability to value creation. In other words, the two primary paths tend to be in a dynamic interaction. Second, there is a *linear* feedback loop from BMI to reshape entrepreneurial aspiration and entrepreneurial flexibility at the HQ in three ways: (1) a *virtual cycle* with a faster BMI leading to higher entrepreneurial aspiration and flexibility (as in the cases of FAB and PUM), (2) a *vicious cycle* with a slower BMI leading to lower entrepreneurial aspiration and flexibility (as in the cases of BEE and LIG), and (3) a *neutral cycle* with no change in BMI leading to no change in entrepreneurial aspiration and flexibility (as in the cases of EAR and VET). This feedback effect will also reshape dynamic capability and ultimately BMI in a new cycle. Based upon the above argument, we develop the third set of propositions below:

Proposition 5: As a secondary effect for an MMNE engaging in a top-down venture, the high entrepreneurial aspiration of the HQ will enable the seizing capability of the subsidiary, while the high entrepreneurial flexibility of the HQ will enable the sensing capability of the subsidiary.

Proposition 6: For an MMNE engaging in a top-down venture, the outcome of BMI will have a feedback effect on the entrepreneurial aspiration and flexibility of the HQ, which in turn will start a new cycle on a continual basis.

3.5 Discussion and Conclusion

BMI is a relatively new research area across diverse fields of management research, especially those of strategic management, entrepreneurship and international business. To be effective in the context of top-down venture, MMNEs from advanced economies must engage in BMI due to the large contextual distances or gaps between emerging and advanced economies (Cuervo-Cazurra, 2012; Ghemawat, 2001). The HQ of MMNEs will play a central role in the process of developing

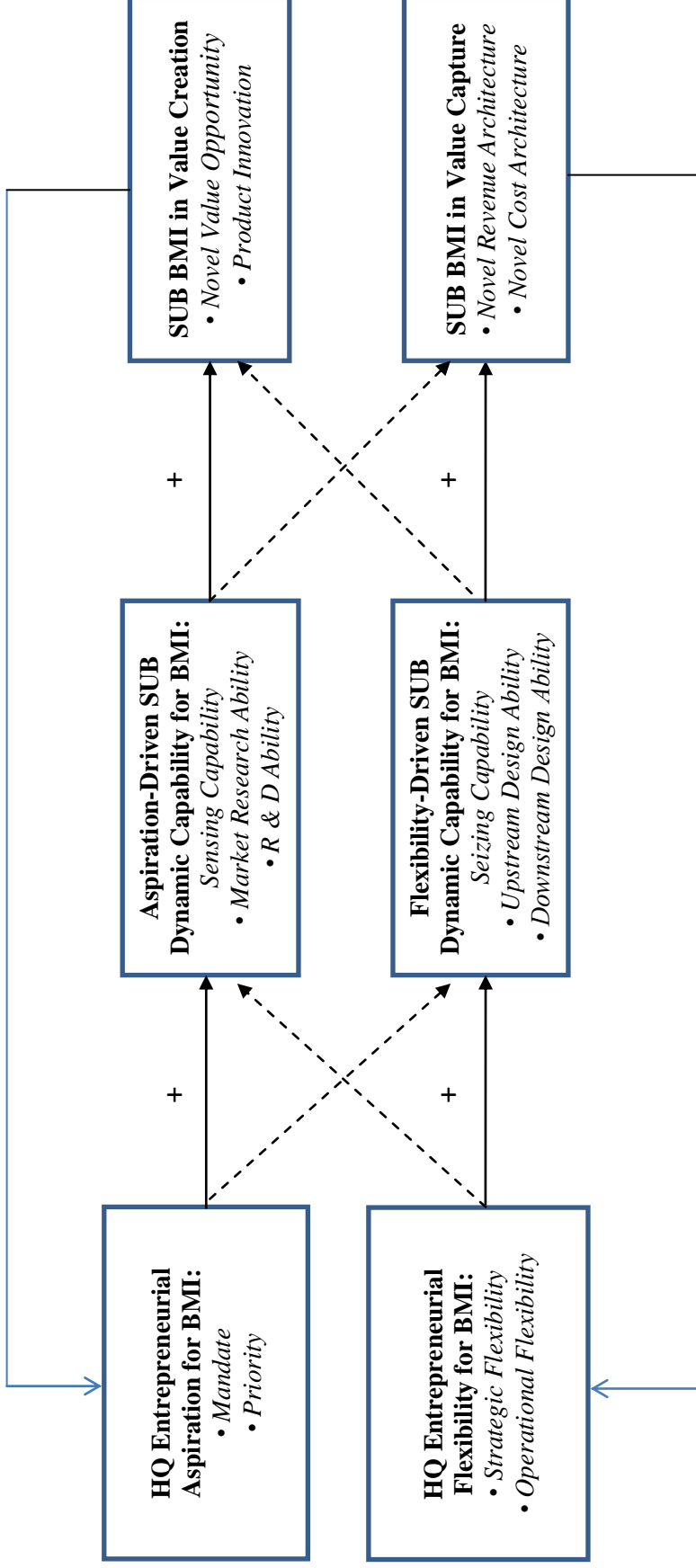
BMI at the subsidiary level, but there is little research on this topic. To address this gap, we seek to make two primary contributions with a novel process framework.

3.5.1 Process Framework and Contributions

The two primary contributions of this study are (1) the explicit specification of the salient link between dynamic capability and BMI and (2) the extension of the link to the global context of a top-down venture by an MMNE. These two primary contributions can be summarised into a novel process framework (see Figure 3.2 for details). Figure 2 represents this novel process framework with two interrelated paths. First, the entrepreneurial aspiration of HQ (in terms of high mandate and high priority for subsidiaries) directly enables the sensing capability (one of the dual dimensions of dynamic capability in terms of market research ability and R&D ability), and indirectly enables the value creation (one of the dual dimensions of BMI in terms of novel value proposition and product innovation) of a subsidiary. Second, the entrepreneurial flexibility of HQ (in terms of high strategic and operational flexibilities) directly enables the seizing capability (one of the dual dimensions of dynamic capability in terms of upstream design ability and downstream design ability) and indirectly enables the value capture (one of the dual dimensions of BMI in terms of novel cost architecture and novel revenue architecture) of a subsidiary.

Figure 2 is an evidence-based elaboration of Figure 1 by opening a series of black boxes, such as those of HQ policy, subsidiary dynamic capability, subsidiary BMI and their specific links with the specific findings from our case studies. Finally, we further identified two extra factors in Figure 2 not covered in Figure 1, which are the secondary effect and the feedback effect.

Figure 3.2 Final Process Framework of HQ's Impact on Subsidiary's DC and BMI



Note: Solid lines indicate primary causal effects, while broken lines indicate secondary causal effects.

The above two primary contributions represented in the process framework can be broken down into four specific secondary contributions. First, this process framework opens the black boxes of entrepreneurial aspiration by specifying its two core dimensions of HQ's mandate and priority for subsidiaries in the context of MNEs, and entrepreneurial flexibility by specifying its two core dimensions of HQ's strategic flexibility and operational flexibility in the context of MNEs. Second, this process framework opens the black boxes of sensing capability as one dimension of dynamic capability, by specifying its two core dimensions of market research ability and R&D ability, and seizing capability as the other dimension of dynamic capability, by specifying its two core dimensions of upstream value-chain design ability and downstream value-chain design ability. Third, this process framework further opens the black boxes of value creation as one of the two dimensions of BMI, by specifying its two core dimensions of novel value proposition and product innovation for customers as the dominant stakeholder, and value capture as the other of the two dimensions of BMI, by specifying its two core dimensions of cost architecture and revenue architecture for non-customer stakeholders as the subordinate stakeholders. Fourth, this process framework opens the black boxes of four boundary conditions for the process of BMI.

The first boundary condition is the condition of cross-divide entry with a top-down venture from advanced markets to emerging markets as two sides of the global divide with sharp distances and gaps in both economic and institutional contexts. Such a cross-divide entry requires a stronger entrepreneurship than a within-divide entry (i.e. the entry within advanced markets or within emerging markets). The second boundary condition is an MMNE, which is distinctive from a large MNE, due to the lack of resources for the former, and distinctive from a small, young MNE, due to the burden of organisational inertia for the former. The special status of an MMNE requires a stronger entrepreneurship than a large MNE, due to the resource constraints, and a small MNE, due to the core rigidity of organisational inertia. It is critical to realise that overcoming such rigidity or inertia requires a special ability to *unlearn* the established routines, which is not necessary in a small MNE (Zahra et al., 2011). The third boundary condition is the unique role of the HQ with its

entrepreneurship (in terms of entrepreneurial aspiration and entrepreneurial flexibility) as the initiating condition for the entire BMI process to start and reoccur on a sustainable basis. The entrepreneurial role of HQ is especially salient for MMNEs because large MNEs have sufficient resources to delegate much to subsidiaries or they can establish highly sophisticated control systems, both of which are lacking in MMNEs. Further, MMNEs cannot afford to informally control their subsidiaries as do small MNEs because the latter can tightly integrate its HQ with its subsidiaries due to its small size. Also different from small MNEs, MMNEs must unlearn their past routines for BMI. Finally, MMNEs tend to treat their subsidiaries as horizontal partners in contrast to the traditional vertical HQ-subsidary relationship in which the HQ is the dominant party with the power to control the subordinate subsidiaries, which is often confrontational rather than cooperative. Even the more recent research on the entrepreneurial role of subsidiary initiatives is still short of framing the HQ-subsidary relationship as a partnership for synergy (Birkinshaw, 2000).

Fourth, in this study, we focus on a subsidiary's reactive response to the entrepreneurial policy of HQ, rather than its proactive initiative-taking. Hence, the four boundary conditions further specify the process of BMI. In sum, the four boundary conditions, with the other three secondary contributions, help operationalise the proposed process framework for its future empirical test.

3.5.2 Implications for Future Research

The contributions of this study bear two core implications for future research and two more core implications for practice. First, the first primary contribution specifically implies that the literature on business model (BMI) and dynamic capability can benefit from each other for cross-fertilisation because the two research streams are inherently related with the latter being the underlying enablers for the former, just as Teece (2007: 1330) pointed out that 'the capacity an enterprise has to create, adjust, hone, and, if necessary, replace business models is foundational to dynamic capabilities'. Specifically, the case evidence in this study suggests that dynamic capability can be explicitly and parsimoniously conceptualised and operationalised with the dual dimensions of sensing capability and seizing capability as a two-factor set, rather than the original three-factor set, because the third

dimension of transformation becomes redundant when the dual dimensions of sensing and seizing are reframed as only related to novel opportunities rather than existing ones, and because the dimension of transformation can be readily incorporated into the dimension of seizing, especially when the feedback loop is included in the process framework (cf. Teece, 2007). Similarly, the case evidence in this study further suggests that the business model can be explicitly and parsimoniously conceptualised and operationalised with the dual dimensions of value creation and value capture (we can also label the two as ‘opportunity creation’ and ‘opportunity capture’), in contrast to the popular approaches with more than two dimensions (e.g. the nine dimensions of the business model, Osterwalder and Pigneur, 2010). Further, the dual dimensions of sensing and seizing capabilities can be further operationalised as market research and R&D abilities for sensing capability as well as upstream design ability and downstream design ability for seizing capability. Similarly, the dual dimensions of value creation and value capture can be further operationalised as novel value proposition and product innovation for value creation as well as novel cost architecture and novel revenue architecture for value capture.

Such approaches are consistent with the emerging consensus on the perspective that the business model is a holistic system of well-coordinated activities in core functional areas (cf. Lepak et al., 2007; Priem et al., 2013; Zott et al., 2011), and the emerging consensus on the perspective that dynamic capability is a higher-order meta-capability to create and renew functional or ordinary capabilities on a sustainable basis (cf. Ambrosini and Bowman, 2009; Collis, 1994; Teece, 2007, 2012; Winter, 2003).

More importantly, the connection between dynamic capability and the business model can make the value-added contributions of both constructs explicit by providing the compelling justifications for them to be imperative in research on strategic management. Specifically, our proposed new conceptualisation and operationalisation of dynamic capability as sensing and seizing capabilities for novel opportunities are directly connected with the new conceptualisation and operationalisation of the business model as value creation and value capture. This direct interconnection lies in the

value-added roles of sensing and seizing capabilities as the underlying dual mechanisms that facilitate the strategic behaviours of value creation and value capture as the dual intended effects of the BMI process, which is thus consistent with the resource-based view that capabilities undergird behaviours (Barney, 1991, 2001) and the dynamic capability view that capabilities drive strategies (Teece, 2014). The interplay between dynamic capability and the business model helps explain how both dynamic capability and the business model are being developed, maintained and renewed to fill the gap in terms of the ‘paucity of research on capability development, transformation and evolution’ (Zahra et al., 2006: 929). This salient advance in terms of specifying the unique *value-added roles* of both dynamic capability and business model is a key contribution to the research on dynamic capability (cf. Ambrosini and Bowman, 2009; Arend and Bromiley, 2009; Zahra et al., 2006) and the business model (cf. Lepak et al., 2007; Priem et al., 2013; Zott et al., 2011). It is worth noting that a recent study makes a compelling argument to explicitly link dynamic capability directly with BMI (Leih, Linden and Teece, 2015). Future research should pay special attention to the unique value-added roles of dynamic capability and the business model (BMI).

Finally, the cross-fertilisation between research on the business model (BMI) and research on dynamic capability is deeply rooted in the enriched and enlarged research on entrepreneurship, just as Teece (2007) suggested that ‘the element of dynamic capabilities that involves shaping (and not just adapting to) the environment is entrepreneurial in nature’ (1321); ‘entrepreneurial management has little to do with analysing and optimising. It is more about sensing and seizing—figuring out the next big opportunity and how to address it’ (1346). The key to the interconnections between the research streams on dynamic capability, the business model (BMI) and entrepreneurship lies in the salient notion of opportunity. Specifically, while dynamic capability is concerned with sensing and seizing novel opportunities, the business model (BMI) is concerned with value creation (opportunity creation) and value capture (opportunity capture), and entrepreneurship is concerned with opportunity creation, opportunity discovery and opportunity recognition as three key forms of entrepreneurship (Alvaraz and Barney, 2010; Chiles, Tuggle, McMullen, Bierman and Greening,

2010). Further, the case evidence in this study lends strong support for the above argument with the opportunity-sensing market research ability and R&D ability as well as the opportunity-seizing upstream and downstream design abilities as the dual roles of dynamic capability. Similarly, opportunity-creating novel value proposition and product innovation as well as opportunity-capturing cost architecture and revenue architecture act as the dual roles of the business model (BMI), which are all related to opportunity creation and opportunity capture as the dual roles of entrepreneurship (Alvaraz and Barney, 2010; Chiles et al., 2010). This salient advance in terms of specifying the *theoretical basis* underlying the value-added roles of dynamic capability and the business model is another contribution (Arend and Bromiley, 2009; cf. Helfat and Peteraf, 2003; Teece, 2007, 2012). Future research should pay special attention to the unique theoretical basis for dynamic capability and the business model (BMI).

The second implication is related to the second primary contribution for the extension of the link between dynamic capability and the business model (BMI) to the global context of MNEs, especially in the case of a cross-divide top-down venture by an MMNE compared to large and small MNEs with a within-divide venture. Specifically, research on the HQ-subsidary relationship in general and the role of HQ in particular can substantially benefit from the inherent link between dynamic capability and business model (BMI) because such a connection can provide rich insights into the underlying mechanisms for the interaction between the HQ and the subsidiary as cooperative partners, especially the positive impact of the HQ's high entrepreneurial aspiration (in terms of high mandate and priority) and high flexibility (in terms of high strategic flexibility and operational flexibility) on the dynamic capability and BMI of the subsidiary. This is particularly critical because the current research on the HQ-subsidary relationship primarily focuses on their vertical link for control rather than their horizontal link for cooperation (see Paterson and Brock, 2002 for a review); therefore, we need to highlight the potential for mutual gains from a horizontal cooperative partnership, rather than the conflicting effect of the HQ-subsidary interaction (cf. Balogun, Jarzabkowski and Vaara, 2011; Lind and Kang, 2011; Yamin and Andersson, 2011). We

need to recognise that it is the mutual trust between the HQ and the subsidiary that defines the relationship quality between the HQ and the subsidiary, as reflected in the positive effects of mandate and priority at the HQ level on risk-taking and resource access at the subsidiary level as well as the positive effects of strategic flexibility and operational flexibility at the HQ level on empowerment and cooperation at the subsidiary level, all of which are enablers or facilitators for dynamic capability and BMI at the subsidiary level.

This cooperative partnership between HQ and subsidiary is particularly salient for MMNEs because it lacks the slack resources of large MNEs and the nimble flexibility of small MNEs. This stuck-in-the-middle status of MMNEs requires a much stronger HQ-subsidary cooperative partnership than those of large and small MNEs. This is because large MNEs have the slack resources to delegate to subsidiaries or establish highly sophisticated control systems, both of which are lacking in MMNEs. Additionally, MMNEs cannot afford to informally control their subsidiaries as do small MNEs because the latter can tightly integrate the HQ and the subsidiary due to its small size, and because the former must unlearn past routines. Further, for the same reasons, MMNEs need a stronger entrepreneurship than both large and small MNEs. In particular, the deep-rooted problem of organisational inertia or locked-in rigidity in all established MNEs, including large and MMNEs, requires special attention in future research. We call this problem *the liability of rigidity* above and beyond the conventional liability of foreignness. It is critical to realise that overcoming such rigidity or inertia requires the special ability to *unlearn* established routines, which is not necessary in small MNEs (Zahra et al., 2011). In addition, the liability of rigidity can exacerbate the liability of foreignness because the former will make both local adaptation and innovation difficult due to the cognitive and structural lock-in effects for mature MNEs, with established routines as core rigidities, which is reflected in the unique challenges to mature firms in the process of BMI (Sosna, Treviño-Rodríguez and Velamuri, 2010). The negative shift from core competence gained in the home market to core rigidity in the host market is the most acute in the case of cross-divide entry, including top-down ventures from advanced markets to emerging markets and bottom-up

ventures from emerging markets to advanced markets. This is because advanced and emerging markets are two sides of the global divide with sharp distances or gaps in economic (resource pool) and institutional (game rule) contexts (Li, 2010, 2013). It is the special features of cross-divide entry that highlight the most unique role of MNEs in general and MMNEs in particular, not so much in exploiting existing advantages, but more in exploring novel ones, especially for mid-end markets involved in cross-divide entry (cf. Teece, 2014). This salient advance in terms of specifying the global context for dynamic capability and business model enriches the research on the HQ-subsidary relationship in favour of their horizontal cooperative partnership, rather than their vertical control relationship (cf. Paterson and Brock, 2002). This salient advance also highlights the imperative for MNEs to unlearn their home-based core competences and business models to effectively learn toward its host-based BMI and novel core competence with its host market as the second home (Li, 2013; cf. Zahra et al., 2011), especially for cross-divide entry by MMNEs. Future research should pay special attention to the horizontal partnership between the HQ and subsidiary as well as the role of unlearning for BMI in the context of cross-divide entry by mature MNEs to build up their second home, especially for mid-end market as the mainstream market in a host economy.

Finally, the salient and imperative effect of a global context on the key interconnections between dynamic capability, business model (BMI) and entrepreneurship in the case of MNEs highlights the potential cross-fertilisation between strategic management and international business. It seems that the most far-reaching theoretical implication of this study lies in the urgent need for management scholars to integrate the theories of MNE with the theories of the firm built upon their shared theme of strategic entrepreneurship. Specifically, strategic entrepreneurship lies at the nexus of strategy and entrepreneurship as two overlapped research streams to examine the entrepreneurial issues for mature firms (Ireland, Hitt and Sirmon, 2003). When strategic entrepreneurship is extended to the global context, it can be further integrated with research on international entrepreneurship to examine the entrepreneurial issues for mature MNEs, including large MNEs and MMNEs, beyond the current narrow focus on an international new venture or a 'born-global' firm (cf. Keupp and

Gassmann, 2009; Kuratko and Audretsch, 2009). In particular, we must respond to the call to bring the issue of entrepreneurship into the research on MNEs (Birkinshaw, 2000; Groggaard et al., 2011; Teece, 2014), which is related to the call to bring the issue of the business model into the research on MNEs (Tallman, 2014). Our proposed process framework sheds light on how to integrate the parallel streams on international entrepreneurship and strategic entrepreneurship into an overlapped domain of ISE at the nexus of three interrelated research areas, i.e. international business, strategic management and entrepreneurship (Li, 2013). In other words, ISE focuses on the entrepreneurship of mature MNEs in the global context, which can provide the most relevant context for the research on both dynamic capability and the business model (BMI). Conversely, the research on strategic entrepreneurship and international entrepreneurship can benefit from the research streams on dynamic capability and the business model (BMI).

The most salient benefit of ISE as an interdisciplinary endeavour lies in its broad extension beyond the narrow focus of the research on international entrepreneurship on new or small MNEs with any cross-border activities qualified as entrepreneurial (rather than cross-divide entry in the ‘unchartered water’ that requires unlearning before new learning), and beyond the narrow focus of the research on strategic entrepreneurship on local firms with any strategic activities qualified as entrepreneurial (rather than cross-divide entries in the ‘unchartered water’ in need of unlearning before new learning). In the domain of ISE, future research can focus more on dynamic capabilities and BMI of MMNEs to engage in cross-divide entry, including both top-down and bottom-up ventures. Finally, ISE has the potential to enrich the learning-based view of internationalisation (see Li, 2010 for a review) by specifying the requirements for unlearning by mature MNEs to continuously create and renew dynamic capability and the business model. The enriched learning perspective can integrate exploratory learning with exploitative learning by highlighting the unique role of unlearning as an antecedent to new exploration, which can shed light on the duality (trade-offs and synergy) of value creation via exploration and value capture via exploitation (cf. Li, 2010; Pitelis, 2009) as well as the debate over whether capability should be defined as *routine* (cf. Autio

et al., 2011; Teece, 2012; Winter, 2003; Zahra et al., 2006). This salient advance in specifying the necessity and feasibility of integrating the three research areas into ISE as an overarching framework for MNEs can contribute to all these three areas via their cross-fertilisation (Li, 2013; cf. Keupp and Gassmann, 2009; Kuratko and Audretsch, 2009). In particular, ISE is an echo to the recent call to develop ‘an entrepreneurial theory’ of MNEs (Teece, 2014). Future research should pay special attention to ISE as an integrative framework to bridge the gap between the three largely segregated areas of research.

3.5.3 Implications for Future Practice

This study bears two major implications for future practice. The first implication is concerned with the inherent link between dynamic capability and the business model (BMI). This helps to integrate various practical models about the business model (BMI) used by both consulting firms and businesses (cf. BCG, 2009; EIU, 2005; IBM, 2006; KPMG, 2006). Our new process framework is holistic and dynamic so as to be both theoretically rigorous and practically relevant in terms of opening the black boxes of the business model (BMI), dynamic capability and HQ entrepreneurship with a set of specific underlying mechanisms. This also helps to clarify the confusing and conflicting advice for practitioners (e.g. Amit and Zott, 2012; Chesbrough, 2010; Doz and Kosonen, 2010). In other words, the proposed process framework is highly practical due to its practical operationalisation. It is worth noting that we frame value creation (i.e. novel value proposition and product innovation) as primarily for the interest of the customer (in terms of use value) as the dominant stakeholder among all stakeholders, while value capture is framed as primarily for the interest of other stakeholders in terms of exchange value. It is critical for us to differentiate business model adaptation from BMI because the former covers a fragmented redesign of the business model with partial changes in either value creation or value capture, while the latter for a holistic redesign of the business model with systematic changes in both value creation and value capture. This is a highly relevant practical guide for the design of the business model.

The second implication of this study is concerned with the practical challenge of managing the top-down venture in the highly uncertain context of emerging economies, especially for MMNEs in contrast to large and small MNEs (cf. Autio et al., 2011; Jones and Coviello, 2005; Keupp and Gassmann, 2009). It is critical for the HQ and the subsidiary to work closely as partners in the process of BMI, especially in a top-down venture. Their relationship quality largely derives from the entrepreneurial role of HQ. Further, the role of unlearning is imperative in the context of cross-divide entry. In sum, our findings about the two paths with two enablers (aspiration and flexibility) and two capabilities (sensing and seizing capabilities) are practically salient for practitioners to achieve successful BMI in the global context.

3.5.4 Limitations

Similar to other studies, this study has some limitations. For example, using longitudinal data of more than two years, we only followed the initial part of the BMI process with the six cases. Our research is the first step in addressing the empirical challenge of opening the black box to BMI as a process for a top-down venture. Further, this study focuses heavily on the perspective of the HQ rather than the perspective of the subsidiary. In this sense, we focus on the subsidiary's reactive response to the entrepreneurial policy of the HQ, rather than its proactive initiative-taking. Third, we focus only on a single subsidiary of each MNE rather than the whole network of multiple subsidiaries within each MNE. Finally, we did not explore the possible trade-off between value creation and value capture or between sensing capability and seizing capability along the two primary paths in the process framework. Our future research projects will address the above limitations.

3.5.5 Conclusion

By focusing on how the HQ of MMNEs enable BMI at the subsidiary level for a top-down venture, this study has the potential to contribute to the literature of the business model (BMI), dynamic capability, the HQ-subsidary relationship and the interdisciplinary domain of ISE. Based

upon the rich data of field study, our contributions are reflected in a novel process framework with three sets of core constructs as well as their causal links along two paths.

Our process framework bears key implications for both research and practice. This framework showcases the potential to integrate the currently separated research streams on the business model (BMI), dynamic capability and the HQ-subsiidiary relationship into the interdisciplinary domain of ISE. Future research is required to refine and test the proposed research propositions derived from this novel process framework.

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Chapter 4: Entrepreneurial Initiative-taking and Improvising for Business Model Innovation: *Subsidiary-Enabled Dynamic Capability for Cross-Divide Entry with a Top-Down Venture*

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Abstract

Business model innovation (BMI) plays a critical role in building up competitive advantages when medium-sized multinational enterprises (MMNEs) from an advanced economy enter an emerging economy, given the sharp distinctions in the operating contexts between advanced and emerging economies as two sides of the *global divide*. Prior research has highlighted the salient role of foreign subsidiaries in the global network of multinational enterprises (MNEs). However, little is known about how MNEs specifically facilitate BMI at the subsidiary level when operating in an emerging economy, especially in the case of MMNEs. Adopting the method of a comparative and longitudinal case study, we have tracked the specific processes of BMI among six Danish MMNE subsidiaries in China. We have proposed a theoretical framework with *initiative-taking* and *improvising* as two primary enablers for BMI via *dynamic capability* as the core mediator at the subsidiary level, in the special context of cross-divide entry with a top-down venture from an advanced economy to an emerging economy for the latter's mid-end market. This study contributes to the emerging research stream of *international strategic entrepreneurship (ISE)*.

Keywords: Business model innovation, dynamic capability, initiative-taking, improvising, global divide, international strategic entrepreneurship

4.1 Introduction

A recent global survey of more than 4,000 senior managers by the *Economist Intelligence Unit* found that the majority (54%) favoured business model innovation (BMI) over product and service innovation as a source of future competitive advantage (Amit & Zott, 2012). BMI is often regarded as a general process in which a firm adopts a novel value proposition to exploit its current resources and capabilities, and explore future ones (e.g. Gambardella & McGahan, 2010; Nelson, 1993; Teece, 2007). In this paper, we specifically refer to *BMI* as a holistic redesign of the old business model into a novel business model with novel value creation and novel value capture. Even though BMI seems to be closely related to dynamic capability, we know little about if and how BMI and dynamic capability are related. Additionally, there is a lack of consensus on what business model and dynamic capability really mean. Relative to large firms, medium-sized firms tend to face greater internal resource constraints (Buckley, 1989) and greater external barriers (Acs & Preston, 1997). Further, relative to small firms, medium-sized firms tend to suffer more from organisational inertia or a lock-in effect in terms of the previously established routines and taken-for-granted assumptions, rendering *unlearning* necessary (cf. Tsang & Zahra, 2008). Hence, the role of BMI (and that of dynamic capability) is much more salient and imperative to medium-sized firms than to large or small ones. However, we know little about how BMI (also dynamic capability) occurs in all firms in general and medium-sized firms in particular. This is the first major gap in the literature we need to close (see Zott, Amit & Massa, 2011; Teece, 2007, for recent reviews). In particular, we must understand the potential link between BMI and dynamic capability with their shared theme of strategic entrepreneurship.

The issue of BMI is expected to be more complex in the context of cross-border operations, as in the case of foreign subsidiaries of multinational enterprises (MNEs) operating in their external local contexts and their internal multinational network (Forsgren, Holm & Johanson, 2005). Further, owing to the sharp distinctions in the economic and institutional contexts between advanced and emerging economies, which we refer to as the *global divide*, MNEs from advanced economies need to substantially change their prior business models for their advanced home markets in order to be

effective in the distinct contexts of the emerging host markets (Cavusgil & Agarwal, 2002; Hansen, Petersen & Wad, 2011; Khanna & Palepu, 2010). We refer to cross-border activities between advanced and emerging economies, as two sides of the global divide, as *cross-divide entry*, where those from an advanced economy to an emerging economy are termed *top-down venture* and those from an emerging economy to an advanced economy are termed *bottom-up venture*. Similarly, dynamic capability can be much more complex in the cross-border context, especially in the cross-divide context. Finally, the above issues will be more salient and imperative to medium-sized MNEs (MMNE) than to large or small MNEs. However, we know little about how BMI occurs in MNEs in general and MMNEs in particular. This is the second major gap in the literature we need to close (see Li, 2010; Tallman, 2014; Teece, 2014, for recent reviews). In particular, we need to examine the unique roles of BMI, dynamic capability and strategic entrepreneurship in the global context.

Extending the notion of subsidiary initiatives (see Strutzenberger & Ambos, 2014 for a review), we assume that a business model at the subsidiary level can be only effective when it is a good fit for the specific local context. We define a subsidiary of an MMNE as an operational unit owned by the headquarters (HQ) of the MMNE, but located outside the HQ's home country. Focusing on the research question regarding how an MMNE's subsidiary engages in BMI, the purpose of this study is to close the above-mentioned two core gaps in the literature by exploring the primary mechanisms as enablers for BMI, especially the possible link between such enablers and dynamic capability at the subsidiary level in the context of a top-down venture from an advanced economy to an emerging economy for cross-divide entry, with the mid-end market as the primary target in the emerging market.

Since we focus on the mechanisms in the process of BMI, we adopt the method of a comparative and longitudinal case study with particular interest in its relevance to theory-building (Eisenhardt, 1989; Pettigrew, 1990). Specifically, the theoretically sampled cases in this study are six MMNEs from Denmark, all of which have subsidiaries engaging in BMI projects in China. We selected

Denmark because it was one of the smallest advanced economies with the majority of its firms as MMNEs, and we selected China because it is the world's largest emerging economy at the frontier of international business with crucial learning potentials (Tung, Worm & Fang, 2008). Our primary contributions lie in the proposed framework of the BMI process for an MNE subsidiary, in which initiative-taking and improvising serve as two indirect driving mechanisms for BMI via their direct influences on two dimensions of dynamic capability in terms of sensing and seizing capabilities as two mediating mechanisms, all at the subsidiary level in the cross-divide context.

The remainder of this study is organised into four sections. First, we review the relevant literature for open-ended theoretical guidance. Second, we describe the method and the selected cases. Third, based upon the case evidence and comparing it with extant literature, we provide two sets of propositions about the two facilitating mechanisms and one mediating mechanism for BMI at the subsidiary level. Finally, we discuss the emergent theoretical framework with its critical implications for future research and practice, and finally, we present our conclusions.

4.2 Theoretical Background

Our research focuses on how MMNEs from an advanced economy engage in BMI when entering an emerging economy. A systematic review reveals that two bodies of literature are most relevant to our research: (1) the roles of BMI and dynamic capability in the global context of MNE's strategic entrepreneurship and (2) the role of a subsidiary initiative in the similar context of MNE's strategic entrepreneurship. Hence, strategic entrepreneurship is the shared theme for literature on BMI, dynamic capability and subsidiary initiatives.

First, literature on the business model and dynamic capability are highly relevant to our research question. Even though there is no widely accepted definition of business model, there is one shared theme, i.e. value proposition (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Zott & Amit, 2010). In addition, related to the above theme, business model is often regarded as consisting of two core dimensions, i.e. value creation and value capture (Zott & Amit, 2010; Zott et al., 2011). Hence, we can reframe BMI as the transformation of an old business model into a systematically novel

business model with novel value creation and novel value capture by exploring the potential and exploiting the existing resources and capabilities (cf. Chesbrough & Rosenbloom, 2002; Gambardella & McGahan, 2010; Nelson, 1993; Teece, 2007). Furthermore, firms must engage in BMI when confronted with fundamental shifts in external contexts or in internal profiles (Wischnevsky, Damanpour, Francis & Mendez, 2011), both of which always require special capabilities to manage ambiguity and uncertainty in the process of BMI. Hence, we need to incorporate BMI and dynamic capability into the research on MNEs in general and MMNEs in particular (cf. Tallman, 2014; Teece, 2014). Finally, it is also likely for the special focus on global context of MNE to enrich the theory-building on BMI and dynamic capability (Li, 2010), especially helping remedy the fragmented status of both research streams (see Zott, Amit & Massa, 2011; Teece, 2007, for recent reviews).

Because BMI may complement product and service innovations (Zott & Amit, 2009), MMNEs could face big challenges to succeed with BMI in host markets where the overall contexts tend to be fundamentally distinctive from their home country (Li, 2010). However, few prior studies focus on the unique challenges and opportunities confronting MMNEs in the process of BMI in a host country, especially in the context of cross-divide entries from an advanced economy to an emerging economy as a top-down venture, or vice versa as a bottom-up venture. The unique context of a top-down venture is particularly important for an MMNE when it is transforming its strategic role from serving the existing home-based or international clients (when such clients enter an emerging economy, often at the top-end market) to serve the novel host-based or local clients (such clients tend to be in the mid-end markets because the low-end segment in an emerging economy is often off-limits for foreign MMNEs from advanced economies). We frame *mid-end market* as the mainstream market in an emerging economy with unique opportunities and challenges for MMNEs from advanced economies (Li, 2013).

Second, literature on subsidiary initiatives is useful to our study. *Subsidiary initiative*, which is defined as the entrepreneurial activities of foreign subsidiaries in the host country to tap into local

opportunities, can be framed as a critical prerequisite for a subsidiary to develop (Birkinshaw, 1997; Birkinshaw & Ridderstråle, 1999; Dörrenbäcker & Geppert, 2010). Subsidiaries often engage in initiative-taking activities beyond their given mandates from their HQ, and such a bottom-up process is a critical mechanism by which local elements find their way into the overall strategy of the HQ (Ambos, Andersson & Birkinshaw, 2010; Bartlett & Ghoshal, 1998; Birkinshaw, Hood & Young, 2005; Cantwell & Mudambi, 2005; Rugman & Verbeke, 2001).

Since it takes the form of ‘domain-developing’ beyond its current mandate, subsidiary initiatives tend to challenge the current business model of the HQ, especially in the context of a top-down venture for a mid-end market. Such subsidiary initiatives are often radical, rather than incremental, since they enter ‘the unchartered water’ that is distinctive from the familiar home context. Additionally, even though we can see the need for collaboration from the HQ and the subsidiary as partners, current literature on the HQ-subsidary relationship often focuses on the negative effect in terms of the conflict between the HQ and the subsidiary (see Paterson & Brock, 2002 for a review). For example, some scholars argue that the occurrence of subsidiary initiatives will depend on the bargaining power of subsidiary relative to the HQ (Dörrenbäcker & Gammelgaard, 2011), and it tends to be delayed because of the organisational inertia of the HQ (Birkinshaw & Ridderstråle, 1999). Consequently, literature on subsidiary initiatives remains largely fragmented, especially concerning theory-building (see Strutzenberger & Ambos, 2014 for a recent review). Finally, it is also likely for the unique context of cross-divide entries in general and top-down ventures in particular to enrich theory-building on the HQ-subsidary relationship in general and subsidiary initiative in particular, especially by helping to remedy the fragmented status of both research streams (see Paterson & Brock, 2002; Strutzenberger & Ambos, 2014, for reviews). Even though the entrepreneurial orientation of a subsidiary initiative is explicitly or implicitly recognised, little research exists on how a subsidiary initiative may be related to the BMI and dynamic capability of MNEs (cf. Strutzenberger & Ambos, 2014; Tallman, 2014; Teece, 2014).

In sum, although extant literature can provide some useful clues, we cannot find a theoretical framework ready to guide our study on the specific mechanisms for MMNE subsidiaries to enable BMI in the context of a top-down venture for a mid-end market. For top-down ventures, the contextual distances or gaps between the two markets provide both unique opportunities and unique threats for MNEs in general and MMNEs in particular (cf. Hansen et al., 2011). To explore the specific drivers for subsidiaries to enable BMI – while maximising unique opportunities and minimising unique threats – in the context of a top-down venture for a mid-end market, we need to develop new theoretical constructs toward a conceptual framework to close the key gaps in the literature, especially in terms of linking BMI and dynamic capability in the global context of MNEs (MMNEs) upon the underlying theme of strategic entrepreneurship of MNEs in general and MMNEs in particular.

4.3 Method

Building new theories from one or more cases is an increasingly recognised research strategy in international business research. This research strategy develops new theoretical constructs, propositions and/or mid-range theories from case-based empirical evidence (Eisenhardt, 1989). Further, creative insights often arise from the juxtaposition of contradictory or paradoxical evidence from cases (Pettigrew, 1990). In this research, we adopt the method of a comparative and longitudinal case study for theory-building because of the lack of related theories and the specific focus on process issues for which a case study is best (Eisenhardt, 1989; Pettigrew, 1990). The method of a case study is increasingly recognised by international business scholars (e.g. Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, E. 2011).

A case study can involve either a single or multiple cases at various levels of analysis (Yin, 1994). Multiple cases are more effective than a single case because they enable collection of comparative data and are thus likely to yield more accurate and generalizable theories than a single case (Eisenhardt, 1991; Yin, 1994). Our research design is a multiple-case study allowing the replication logic that treats a series of cases as a series of related laboratory experiments. Each case serves to

confirm or disconfirm the inferences drawn from other cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 1994). For the purpose of theory-building, we selected cases in line with the theoretical sampling, which means the cases are selected because they are particularly suitable for illuminating and extending possible causal links among constructs (Eisenhardt & Graebner, 2007).

The research setting is MMNEs, with their HQ in an advanced economy and their subsidiaries in an emerging economy, engaging in top-down ventures for the mid-end market there. MMNEs play a critical role in international business but the actual internationalisation process of MMNEs has attracted little attention from scholars, thus indicating an urgent need for research (Lamb, Sandberg & Liesch, 2011). To close this gap, we selected six MMNEs based in Denmark with subsidiaries in China (one subsidiary for each MMNE) as their first market for a top-down venture with the mid-end market in China (see Table 4.1 for more details). This study was part of the larger project, *Suitable for Growth* (SfG) sponsored by the Danish Industry Foundation and the Universe Foundation in Denmark.

The project goal was ‘to develop a generic framework for penetrating mid-end markets in emerging economies using China as a primary case, and to develop some viable operating models that can help medium-sized Danish companies develop their own business strategies to penetrate such mid-end markets’. We used the following five criteria to select the firms to participate in the project: (1) mid-sized Danish companies with a global turnover of DKK250–1,500 million; (2) experience with international business activities; (3) possess a local operation in China; (4) have China as a strategically critical market; and (5) demonstrate the willingness to invest time and resources in this project to develop a new business model (BMI project).

The six participating firms’ prior business models were designed for the context of an advanced economy, so they were expected to actively engage in BMI for their top-down venture in China. In particular, these MMNEs targeted the mid-end market segment in China as the most attractive, given the potential size and fast growth of the mainstream market in China (Tse et al., 2011). In this

sense, the core of top-down venture lies in the target of the mid-end market segment in an emerging economy.

Table 4.1 Overview of the Six Cases

Firm	Industry	Founding Date (Year)	Established Subsidiary in China (Year)	Interview Times	
				TMT	Others
PUM	Pumps	1830s	2005	11	
				2	9
FAB	Fabric	1850s	2003	11	
				3	8
VET	Veterinary equipment	1890s	2006	6	
				2	4
EAR	Medical Equipment	1860s	1994	8	
				2	6
BEE	Beverage Equipment	1950s	1994	8	
				3	5
LIG	Lighting Equipment	1980s	2003	8	
				2	6

4.3.1 Data Collection

We collected our case data in two phases. In the first phase (i.e. during May–August, 2011), we conducted a series of semi-structured interviews within each firm before the firm joined the SfG project. The interviews were conducted with CEOs. The purpose of the initial interviews was to learn about the participating firm’s strategy for China and seek the firm’s commitment to the BMI project. The interviewees were asked to describe not only their goals and plans for their BMI project but also their challenges and barriers to the project. All six firms were committed to the special BMI project for the Chinese mid-end markets across four key distinctive industries.

All six firms began to engage in their initial phase of BMI in October, 2011, when the project was formally launched. After that, we tracked the BMI progress in each firm. In the second phase,

we collected two types of data: (1) regularly scheduled data and (2) real-time data. To collect the regularly scheduled data, we relied on several different data sources including (1) qualitative data from semi-structured interviews with CEOs and other informants in each quarter; (2) archival data, including innovation project reports and other internal documents; and (3) phone calls, emails and follow-up interviews. The main source of data is semi-structured interviews with two types of informants in each of the six firms: (1) top managers defined as those individuals who have a direct impact on the BMI project and overall corporate strategy (e.g. chairman, CEO, general manager and vice presidents) and (2) team members of the BMI projects who directly managed the project. Having informants from multiple hierarchical levels can greatly reduce potential information bias (Bingham & Haleblian, 2012; Golden, 1992; Miller et al., 1997).

Each interview was conducted by two investigators, with one investigator primarily responsible for the interview and another investigator responsible for taking notes. After the interview, we followed the '24-hour rule', requiring detailed interview notes and impressions to be completed within one day of the interview (Bourgeois & Eisenhardt, 1988; Yin, 1994). We also developed questionnaires to collect regularly scheduled data in each quarter, including such variables as BMI effectiveness, team performance, resource scarcity, the decision-making process and team leadership.

Finally, to collect the real-time data, we conducted field observations in each quarter to track the BMI process. First-hand observations helped us learn how specific progress occurred over time. Some scholars have argued that to understand how innovation actually occurs over time, it is necessary to supplement the regularly scheduled data collection with the intermittent real-time data (e.g. Van de Ven et al., 2000)

4.3.2 Data Analysis

Following the recommendations for multiple-case theory building (Eisenhardt, 1989; Eisenhardt & Graebner, 2007), we used both within-case and cross-case analyses with no a priori hypotheses. We began by writing up each BMI story based on the interviews, surveys and archival data obtained

for each case (Eisenhardt, 1989; Yin, 1994). Each BMI story provided the mapping of all relevant events in each BMI process. After the initial write-up of each BMI story, the co-authors discussed each BMI story as a team. For any missing details, we conducted additional interviews via either emails or Skype phone calls. Finally, we synthesised all the data into one finished BMI story.

For the within-case analysis, we took each specific case (in the form of BMI story) as the unit of analysis. At this stage, we focused on identifying the unique pattern of the BMI process to achieve good knowledge about each BMI story. From the patterns that emerged from the within-case analysis, we developed our tentative theoretical constructs. Second, using the replication logic, we conducted the cross-case analysis. We used tables and charts to look for the emergence of shared themes across multiple cases (Eisenhardt, 1989). We iterated between theory and data to clarify our specific findings and theoretical arguments to refine our tentative theoretical constructs. Finally, these above activities helped yield our final theoretical framework.

4.4 Two Enablers for BMI in a Top-Down Venture

Our research focuses on what enables BMI by MMNEs in the context of a top-down venture for a mid-end market. First, we report the findings about BMI in Table 4.2, which summarises our assessment of BMI with representative informant quotes. Specifically, we adapted the three-source approach by Martin and Eisenhardt (2010) to operationalise BMI. As the first source of BMI data, we averaged the *informant ratings* of BMI (on a five-point Likert scale) from two types of informants: (1) team members and (2) team sponsors. As the second source, we used the *qualitative assessments* by the informants. A high BMI performance was inferred from positive comments, while low performance was inferred from negative comments. As the third source, we focused on the *outcome content* of BMI, such as novel value proposition, product innovation, novel revenue architecture and novel cost architecture. In addition, following Daft (1998) and Ciabuschi and colleague (2011), we also examined BMI in terms of the degree and pace of BMI at the subsidiary level, with the *degree* of radical change from the old business model to a novel business model as

the result of the BMI process, and the *pace* as the time elapsed from the initiation of BMI to the early market success of BMI.

Second, we compared the rich evidence of six cases with the relevant literatures for a theoretical framework to explain the different patterns of BMI among the six cases. Specifically, we identified two within-level enablers for BMI: (1) *initiative-taking* (proactive commitment as entrepreneurial motive and innovative orientation as entrepreneurial ability for the subsidiary) as the first enabler at the subsidiary level and (2) *improvising* (thinking-acting convergence as entrepreneurial motive and emergent creativity as entrepreneurial ability for the subsidiary) as the second enabler. The two enablers represent two core mechanisms of subsidiary entrepreneurship. Table 4.3 first summarises the causal relationship from initiative-taking and improvising to dynamic capabilities and then BMI (operationalised in terms of performance).

Table 4.2 Performance of BMI in Six Cases

Firm	BMI performance	Team member rating	Team sponsor rating	Key outcomes
GAB	High	4	5	<ul style="list-style-type: none"> • Identified new segment on mid-end market • Identified new value propositions • Developed and launched two new fabrics for new customers in mid-end market • Configured local value chain
DES	High	4	4	<ul style="list-style-type: none"> • Identified new customers in mid-end market • Identified new value propositions • Launched new pumps for mid-end customers • Configured local value chain
EAR	Low	3	2	<ul style="list-style-type: none"> • Developed a blueprint for new business model, no signature outcomes
BEE	Low	2	2	<ul style="list-style-type: none"> • Identified new value propositions • Developed product prototype • No key outcomes for new business model
KRU	Low	2	3	<ul style="list-style-type: none"> • Sold prior products to Chinese customers • No key outcomes for new business model

LIG	Low	2	-	<ul style="list-style-type: none">•Closed Chinese subsidiary• No key outcomes for new business model
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Table 4.3 From Initiative-Taking and Improvising to Dynamic Capability and BMI

Firms	Initiative-taking Rating and Evidence	Improvising Rating and Evidence	Dynamic Capability Rating and Evidence	BMI Performance Rating and Evidence
FAB	<p>High</p> <ul style="list-style-type: none"> • Proactive Commitment: <ul style="list-style-type: none"> * Strong entrepreneurial spirit as the key to successfully designing new BI * Strong initiative to take action, not just waiting for instructions and orders from HQ • Innovative Orientation: <ul style="list-style-type: none"> * Actively specifying new opportunities * Actively learning from existing and potential customers 	<p>Strong</p> <ul style="list-style-type: none"> • Thinking-Acting <ul style="list-style-type: none"> * Product prototype after 3 months * Zero-series product after 5 months * Final product after 5 months • Emergent Creativity: <ul style="list-style-type: none"> * New ideas from visiting potential customers * New ideas from actions 	<p>Strong</p> <ul style="list-style-type: none"> • Marketing Research and R&D Abilities: <ul style="list-style-type: none"> * Identifying design companies as new target customers with new needs for cheaper but 'good enough' fabrics for mid-end market * Identifying new materials for new products with new colour designs for mid-end market • Upstream and Downstream Design Abilities: <ul style="list-style-type: none"> * Selecting new raw materials, new suppliers and expanding supplier pool for mid-end market * Building new sales force for new products, and launching new products for mid-end market 	<p>High</p> <p><i>Milestones achieved in the 11 months since the start of BMI project:</i></p> <ul style="list-style-type: none"> • Identified new value proposition for mid-end market • Launched two new fabrics for mid-end market • Built up a novel business model for the mid-end market in China
PUM	<p>High</p> <ul style="list-style-type: none"> • Proactive Commitment: <ul style="list-style-type: none"> * Strong entrepreneurial spirit * Strong initiative to take actions, not just waiting for instructions and orders from HQ • Innovative Orientation: <ul style="list-style-type: none"> * Actively specifying new opportunities * Actively learning from existing customers 	<p>Strong</p> <ul style="list-style-type: none"> • Thinking-Acting <ul style="list-style-type: none"> * Product prototype after 2 months * Final product after 5 months * Launch product after 1 month • Emergent Creativity: <ul style="list-style-type: none"> * New ideas from visiting existing customers * New product features 	<p>Strong</p> <ul style="list-style-type: none"> • Marketing Research and R&D Abilities: <ul style="list-style-type: none"> * Identifying industrial gear-pump segment as new target with new needs for smaller and cheaper pumps * Designing new gear-pumps • Upstream and Downstream Design Abilities: <ul style="list-style-type: none"> * Reconfiguring supply-chain in China, building new factory for components at lower cost, and building new sales force for mid-end market 	<p>High</p> <p><i>Milestones achieved in the 12 months since the start of BMI project:</i></p> <ul style="list-style-type: none"> • Identified new value propositions for mid-end market • Launched two new pumps for mid-end market • Built a novel business model for the mid-end market in China
EAR	<p>Moderate</p> <ul style="list-style-type: none"> • Proactive Commitment: <ul style="list-style-type: none"> * General manager had strong entrepreneurial spirit, but low autonomy 	<p>Low</p> <ul style="list-style-type: none"> • Thinking-Acting <ul style="list-style-type: none"> * Large gaps between ideas, • Convergence: 	<p>Low</p> <ul style="list-style-type: none"> • Marketing Research and R&D Abilities: <ul style="list-style-type: none"> * Strong marketing research ability to identify new opportunities in mid-end market 	<p>Low</p> <p><i>Milestones achieved since the start of BMI project:</i></p> <ul style="list-style-type: none"> • Identified new

	<p>* Moderate initiative to take actions, but too many constraints from HQ</p> <ul style="list-style-type: none"> • Innovative Orientation: * Strong desire to explore new opportunities 	<p>solutions and actions</p> <ul style="list-style-type: none"> • Emergent Creativity: * Emphasis on formal planning and analysis * Reliance on old routines 	<p>* Weak R&D ability to support new products design for mid-end market</p> <ul style="list-style-type: none"> • Upstream and Downstream Design Abilities: * Weak ability to optimise local value chain * Weak ability to capture value for mid-end market 	<p>opportunities in mid-end market</p> <ul style="list-style-type: none"> • Made blueprint for new business model • No finished novel product for mid-end market
BEE	<p><u>Low</u></p> <ul style="list-style-type: none"> • Proactive Commitment: * Weak entrepreneurial spirit * Unwilling to take actions • Innovative Orientation: * Following the old business model * Worrying about risks * Lack of local knowledge for innovation 	<p><u>Low</u></p> <ul style="list-style-type: none"> • Thinking-Acting Convergence: * Large gaps between ideas, solutions and actions • Emergent Creativity: * Reliance on old routines 	<p><u>Low</u></p> <ul style="list-style-type: none"> • Marketing Research and R&D Abilities: * Weak marketing research ability to scan external environment to identify new opportunities * No local R&D team and weak R&D support from HQ for new product design • Upstream and Downstream Design Abilities: * Weak ability to optimise local value chain 	<p><u>Low</u></p> <p><i>Milestones achieved since the start of BMI project:</i></p> <ul style="list-style-type: none"> • Identified new opportunities in mid-end market • Identified new opportunities in mid-end market • No novel product prototype for mid-end market
VET	<p><u>Low</u></p> <ul style="list-style-type: none"> • Proactive Commitment: * Project manager had strong entrepreneurial spirit, but low autonomy and limited resources * Weak entrepreneurial spirit • Innovative Orientation: * Following the old model 	<p><u>Low</u></p> <ul style="list-style-type: none"> • Thinking-Acting Convergence: * Large gaps between ideas, solutions and actions • Emergent Creativity: * Reliance on old routines 	<p><u>Low</u></p> <ul style="list-style-type: none"> • Marketing Research and R&D Abilities: * Subsidiary has weak marketing ability and weak R&D agility to scan external competitive environment and identify new opportunities • Upstream and Downstream Design Abilities: * Weak ability to optimise local value chain 	<p><u>Low</u></p> <p><i>Milestones achieved since the start of BMI project:</i></p> <ul style="list-style-type: none"> • Not identified new opportunities in mid-end market • No novel product prototype for mid-end market
LIG	<p><u>Low</u></p> <ul style="list-style-type: none"> • Proactive Commitment: * Very weak entrepreneurial spirit * Risk-averse • Innovative Orientation: * Weak desire to innovate 	<p><u>Low</u></p> <ul style="list-style-type: none"> • Thinking-Acting Convergence: * Large gaps between ideas, solutions and actions • Emergent Creativity: * Reliance on old routines 	<p><u>Low</u></p> <ul style="list-style-type: none"> • Marketing Research and R&D Abilities: * Subsidiary has weak marketing and R&D ability to identify new opportunities • Upstream and Downstream Design Abilities: * Weak ability to optimise local value chain 	<p><u>Low</u></p> <p><i>Milestones achieved since the start of BMI project:</i></p> <ul style="list-style-type: none"> • Closed Chinese subsidiary

4.4.1 From Initiative-Taking to BMI via Dynamic Capability

The dominant view about subsidiary entrepreneurship is that the subsidiary must take initiatives to maximise its value to HQ in order to enhance its bargaining power over HQ (Ambos et al., 2010; Delany, 2000; Gupta & Govindarajan 2000). To do that, the subsidiary must enhance its basic technological and managerial capabilities (Sargent & Matthews, 2006). While these needs provide ample incentives for the subsidiary to engage in initiative-taking, other critical factors drive the subsidiary's actual initiative-taking. For example, some scholars have identified three sets of triggers for subsidiary initiatives, i.e. corporate context, subsidiary context and local context (Birkinshaw & Ridderstråle, 1999; Verbeke, Chrisman & Yuan, 2007). In this sense, the subsidiary has to respond to the unique threats and opportunities to secure market performance (Birkinshaw et al., 2005), which often requires BMI, especially in the context of a top-down venture for a mid-end market. Hence, we refer to *initiative-taking* as proactive and innovative tendencies of the subsidiary to engage in its entrepreneurship in the global context.

Consistent with this view, we observed that the six Danish MMNEs' subsidiaries had responded, to different degrees, to the unique opportunities and unique challenges associated with the mid-end markets in China. In particular, we found that initiative-taking was a primary driver to enable BMI. Extending the perspective of subsidiary initiatives (Birkinshaw, 2000), we operationalised the subsidiary's initiative-taking in terms of *proactive commitment* as the entrepreneurial motive and *innovative orientation* as the entrepreneurial ability for the subsidiary to successfully engage in BMI. It is critical to realise that both proactive commitment and innovative orientation are extensively associated with dynamic capability in terms of sensing capability and seizing capability. It is interesting that the role of subsidiary initiative is framed as 'an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity' (Birkinshaw, 1997: 207). If we reframe 'the identification of an opportunity' as the effect of sensing capability and 'the commitment of resources to that opportunity' as the effect of seizing capability, we have specified the inherent link between subsidiary initiative and dynamic

capability (cf. Teece, 2007, 2014). Further, it becomes obvious that dynamic capability serves as the mediator between initiative-taking and BMI at the subsidiary level.

More specifically, owing to the special context of a top-down venture for a mid-end market by MMNEs, the specific path from proactive commitment (the first dimension of initiative-taking as a motive) to BMI via dynamic capability can be the first sub-path for the salient link between initiative-taking as a motive and BMI as an action, and the specific path from innovative orientation (the second dimension of initiative-taking as an ability) to BMI via dynamic capability can be the second sub-path for the salient link between initiative-taking as an ability and BMI as an action. These two sub-paths constitute the general path from initiative-taking to BMI via dynamic capability as the mediator. Table 4.4 summarises our assessment of initiative-taking in terms of the dimensions of proactive commitment and innovative orientation with representative informant quotes.

Among the six cases, FAB and PUM had high initiative-taking intention and obtained significant performance of BMI at their subsidiaries. These two firms' subsidiaries also had strong dynamic capabilities. FAB and PUM subsidiaries not only sensed and identified new opportunities in the Chinese mid-end market, but also seized these fleeting opportunities and converted their new ideas to product prototypes, developed and launched new products and restructured the value chain. Based on these initiative activities, FAB and PUM built their primary new business models for the Chinese mid-end market in which they redefined their customer segments compared to the old business model and value propositions for new customers. Compared to FAB and PUM, the other four firms had low initiative-taking intention, weak dynamic capabilities and low performance of BMI. Table 4.4 summarises our assessment of initiative-taking intention and provides representative informant quotes.

Table 4.4 Initiative-Taking Intention and Representative Informant Quotes

Firms	Dimensions	Representative Quotes
FAB	Proactive Commitment	<ul style="list-style-type: none"> • ‘...entrepreneurial spirit is the most important’. • ‘We have no time to wait for HQ. The change is so fast’. • ‘Taking action actively is very important for new BM’. • ‘...complaining is not useful’.
	Innovative Orientation	<ul style="list-style-type: none"> • ‘We cannot follow the prior processes or routines. In contrast, we need to find new path to design our products’. • ‘...innovative method is necessary for designing a new business model’.
PUM	Proactive Commitment	<ul style="list-style-type: none"> • ‘...everything changes fast in China. You have to take action quickly. No time to wait for HQ’. • ‘Entrepreneurship is very important for doing business’. • ‘...we have never complained about HQ; it is not useful for BMI’. • ‘...action, action and action quickly’.
	Innovative Orientation	<ul style="list-style-type: none"> • ‘The one key reason why PUM can develop new products for middle market is our innovative spirit. We are willing to adopt a new approach’. • ‘The customers’ needs change very quickly; we need to constantly innovate in order to meet their needs’.
EAR	Proactive Commitment	<ul style="list-style-type: none"> • ‘I have to wait because I have no power and resource’. • ‘The HQ does not understand Chinese markets’.
	Innovative Orientation	<ul style="list-style-type: none"> • ‘...I have new ideas, but no opportunity to implement it’. • ‘...HQ tries to control everything; it is very difficult to innovate at the subsidiary’.
BEE	Proactive Commitment	<ul style="list-style-type: none"> • ‘Key project team members stay in Denmark; their entrepreneurial spirit for Chinese mid-end markets is not strong because they lack local knowledge’.
	Innovative Orientation	<ul style="list-style-type: none"> • ‘...people who have experience like using old ways to solve new problems’. • ‘...innovative method needs resource slack. Without enough resource, it is very difficult to create innovation’.
VET	Proactive Commitment	<ul style="list-style-type: none"> • ‘We do not have a common goal on the project. Without a clear strategy, it is very difficult to proactively take action’. • ‘...the only thing is waiting’.
	Innovative Orientation	<ul style="list-style-type: none"> • ‘HQ does not trust me. I cannot take high risk for innovation’. • ‘...taking an old approach may be conservative, but there is no risk’.
LIG	Proactive Commitment	<ul style="list-style-type: none"> • ‘The innovation project did not have high priority.... I think we lack proactive spirit in Chinese markets’.
	Innovative Orientation	<ul style="list-style-type: none"> • ‘We do not have clear innovative approach for Chinese markets’.

FAB initially opened an office in China to take care of sourcing textiles for its European customers. About four years ago, the division gradually started to sell to Chinese customers in greater numbers and to Western furniture companies that were manufacturing in China. FAB found huge opportunities in the Chinese middle market and decided to design its business model for the mid-end customers. However, the first big challenge was that FAB's subsidiary did not have special products for the mid-end market. Its products only targeted premium customers. As one team member from FAB's subsidiary said, 'Our product prices are so high, they are not fit for the mid-end market. We need to explore new low-priced products'. The second challenge was that FAB did not have any experience of the Chinese middle market. 'The challenge is very big because we do not have any experience of mid-end customers'. The project team leader said, 'Our past task was to buy raw material and sell at a high price with high quality to our old big customers'. The third challenge is FAB's lack of resource to design new products in house.

How to overcome these three challenges was a big problem for FAB's subsidiary. After several discussions inside the subsidiary, the general manager and the BMI project team members believed that initiative-taking was the key to overcoming these challenges. As the team leader said,

'We need to proactively take action. Waiting is not valuable for our project. We cannot wait for HQ decisions before taking action because they do not have local knowledge. We cannot wait for enough resources for our actions because FAB is a small firm that does not have slack resources to support innovation. The only way is to take our entrepreneurial spirit to sense new opportunities and integrate our resources'.

Based on our observations, FAB not only showed high proactive commitment but also innovative orientation. For example, the product developers took innovative methods to sense new opportunities, and they proactively visited and interviewed customers with the sales people. Before this project, the R&D staff preferred to develop new products in the lab, rather than work directly with customers. As one product developer said, *'We changed our working method. We left our*

office and went to our customers' offices. We needed to know our customers' real needs. Working with customers is our important principle for innovation'.

In fact, FAB's subsidiary not only took an innovative approach in the R&D area, but also took innovative methods in configuring the local value chain and creating value. For example, FAB's subsidiary identified that the value propositions of mid-end markets were cheap in price and 'good enough' in quality. According to a survey of R&D staff, new mid-end market products are 70% lower than the original products for high-end markets. If FAB were still using the old value chain, the price could not be reduced as much. In order to develop low-priced products with good enough quality, FAB's subsidiary proactively took many innovative approaches including using raw materials and configuring the local value chain. Finally, FAB made remarkable achievements within eight months of the beginning of the BMI project.

When we interviewed FAB's top managers at the HQ and the general manager and team members at the subsidiary, we asked them about the main factors that drove them to push the BMI procedure in China. All of them mentioned three key words and concepts: entrepreneurial spirit, entrepreneurial orientation and entrepreneurial initiative. As the team leader said,

'The competition in China is fierce. Entrepreneurial spirit is a key factor to design our new business model successfully because GAB is a small international firm. We do not have enough money and resource compare to those big multinational companies'.

In PUM, the BMI team leader agreed with FAB's leader that initiative-taking is the one important determinant for BMI. Compared to customers in high-end markets, customers in middle-markets need good quality, low-priced products. Owing to PUM's prior high-priced products focused on high-end markets, PUM has faced big challenges since it began to develop new products for the mid-end market. In the process of designing a new business model, initiative-taking is one driver. The team leader mentioned, *'It is not easy to design a new product for the mid-end market because we have no experience in this area. In fact, we need to try and try. In the process, initiative-taking is*

a very important factor because we have no time to wait. The marketing situation changes fast in China'.

Based on our observations, PUM's first new product which is special for the Chinese middle-market was the result of initiative-taking by the sales people. In the first quarter of 2011, two sales people visited their customers to get ideas and actively identify new opportunities for the mid-end market. In fact, at that time, nobody knew how to reduce the product costs and keep the product a good enough quality to meet the customers' needs. Despite their lack of experience and resources, employees from the sales and R&D departments worked together and took action to redesign their products and conduct experiments. Almost 10 months later, PUM developed a product prototype. By the end of April 2013, PUM had won a contract with a big Chinese company and sold more than 30 product units.

Compared to FAB and PUM's strong initiative-taking behaviour, the other four cases showed weak initiatives to 'innovate the business model' and low BMI performance. The common characteristics of BMI in the four cases are waiting, complaining, compliance and risk-adversity. For example, team managers at VET and EAR subsidiaries complained that they lacked the power and resources to try their ideas. For example, the team manager from EAR said, *'I have many new ideas about the Chinese mid-end market, but HQ tries to control everything. I don't have enough power and resources to try. I have no choice but to wait'.*

Based on our data, in the first stage of the initiative, team members of both EAR and VET could actively identify new opportunities for the mid-end market, and they had some good ideas for new business models. However, they were too dependent on HQ and lacked initiative. They took passive actions of compliance, waited for the HQ's decision and failed to take action in the last two stages of getting support and commitment, and implementing the opportunity.

According to a resource-based view, organisational processes such as human resource management are important resources from which managers can develop value-creating strategies (Bingham & Eisenhardt, 2008). In this research study, we found that high initiative-taking

subsidiaries, such as FAB and PUM, had a more flexible HR process than low initiative-taking subsidiaries, such as EAR, VET, BEE and LIG. Flexible human resources policies and processes encourage subsidiary managers' entrepreneurial spirit and effort.

For MMNEs from developed countries, designing a new business model is a big challenge because the environment in emerging markets is uncertain and unpredictable. As Weick (1993) argued, it is very important to create a motivating system because the uncertainty can create paralysing anxiety about the future. We argue that HR processes are critical motivating systems for building subsidiary managers' confidence.

In sum, we have found that initiative-taking is a primary enabler for BMI at the subsidiary level; however, special capabilities are required to manage the ambiguity and uncertainty of the BMI process. In this sense, the link between initiative-taking and BMI and the mediating role of dynamic capability for that link can be reasonably established. The special context of cross-divide entry with a top-down venture for a mid-end market by MMNEs accentuates this link and role. Hence, such observations lead to our first set of propositions.

Proposition 1: For an MMNE subsidiary engaging in a top-down venture, initiative-taking (proactive commitment as entrepreneurial motive and innovative orientation as entrepreneurial ability for the subsidiary) will enable BMI via facilitating dynamic capability as the mediator.

Proposition 2: The special context of a top-down venture for a mid-end market by MMNEs will define the first motive-action sub-path from proactive commitment to BMI via dynamic capability as the mediator, and the second ability-action sub-path from innovative orientation to BMI via dynamic capability as the mediator.

4.4.2 From Improvising to BMI via Dynamic Capability

Besides initiative-taking as a form of subsidiary entrepreneurship for BMI, we also identify the other form that we term improvising. *Improvising* is defined as the degree to which composition and execution converge in time, but with the element of out-of-the-box innovation, which is reflected on the two dimensions of action pace and action novelty (Moorman & Miner, 1998). In other words, the higher the speed and novelty, the higher the improvisation. It is also found that improvisation plays a critical role in the innovation process (Eisenhardt & Tabrizi, 1995; Kamoche & Cunha, 2001), thus often resulting in rapid change and positive performance (Vera & Crossan, 2005). In the

special context of cross-divide entry with a top-down venture for a mid-end market by MMNEs, it is imperative for the subsidiary to engage in improvising for BMI. Hence, we refer to *improvising* as the time-convergent (fast-paced action) and out-of-the-box (novelty-driven action) tendencies of the subsidiary to engage in its entrepreneurship in the global context.

Consistent with this view, we observed that the six Danish MMNEs' subsidiaries responded, to different degrees, to the unique opportunities and unique challenges associated with the mid-end markets in China. In particular, we found that improvising was the other primary driver to enable BMI. Extending the perspective of improvising (Moorman & Miner, 1998), we operationalised the subsidiary improvisation in terms of *thinking-acting convergence* as the entrepreneurial motive, and *emergent creativity* as the entrepreneurial ability, for the subsidiary to successfully engage in BMI. In particular, thinking-acting convergence can be operationalised by the pace or speed from the initial conceptions of BMI design to the direct outcomes of BMI performance in terms of completed BMI milestones. Furthermore, emergent creativity can be operationalised by the magnitude of radical changes from an old business model to a novel one. It is critical to realise that thinking-acting convergence and emergent creativity are both extensively associated with dynamic capability in terms of sensing capability and seizing capability. It is interesting that the role of improvising is framed as 'action speed' and 'action novelty' (Moorman & Miner, 1998: 707). If we reframe 'action speed' as the effect of seizing capability and 'action novelty' as the effect of sensing capability, we specify the inherent link between subsidiary improvisation and dynamic capability (cf. Teece, 2007, 2014).

Table 4.5 The Improvising Effort and Representative Informant Quotes

Firms	Dimensions	Representative Quotes
FAB	Thinking-Acting Convergence	<ul style="list-style-type: none"> • ‘...in China, the business environment changes quickly...the big problem is slow action, we need to action very fast...’. • ‘I believe that thinking is important, but action is more important. We try our best to short the gap between the ideas and actions’.
	Emergent Creativity	<ul style="list-style-type: none"> • ‘...there is no old way to follow because the customers are new. We definitely need to take a creative method to fit their needs’. • ‘We explore our possible solutions for mid-end market. The environment is high uncertain. We usually adjust our solutions in the actions.... Some new ideas emerged in our actions’.
PUM	Thinking-Acting Convergence	<ul style="list-style-type: none"> • ‘...some people only like thinking in the office, it is not valuable for our customers. Our goal is to convert new ideas into actions and solutions to fit the customers’ needs’. • ‘Improvisation is very important for innovation. It could improve our ability to act’.
	Emergent Creativity	<ul style="list-style-type: none"> • ‘You cannot make a detailed plan because you do not know what will happen tomorrow. The Chinese market is very different from Danish markets. It is dynamic. We need to take action’. • ‘In fact, many new ideas were from actions’.
EAR	Thinking-Acting Convergence	<ul style="list-style-type: none"> • ‘Concerning new business models, I have spent lots of time thinking and reached some solutions, but they cannot be implemented. I do not have any resources for actions’. • ‘Our big problem is that we act very slowly’.
	Emergent Creativity	<ul style="list-style-type: none"> • ‘For new markets, we need to take a new method. But, we do not like to take risks for a new approach’.
BEE	Thinking-Acting Convergence	<ul style="list-style-type: none"> • ‘The convergence of ideas and actions is very difficult’.
	Emergent Creativity	<ul style="list-style-type: none"> • ‘There are no R&D people at the subsidiary. Engineers at HQ preferred old technology to developing products’. • ‘We tend to follow the prior routines which do not work in Chinese markets’.
VET	Thinking-Acting Convergence	<ul style="list-style-type: none"> • ‘Weak autonomy and resources limit our actions in China. That’s why some plans could not be successfully implemented’.
	Emergent Creativity	<ul style="list-style-type: none"> • ‘Everybody knows the Chinese markets are uncertain, but few people like to take risks for innovation’.
LIG	Thinking-Acting Convergence	<ul style="list-style-type: none"> • ‘Decision-makers and implementers are separated. There is a big gap between plan and actions’.
	Emergent Creativity	<ul style="list-style-type: none"> • ‘We used our old approach to solve new problems’.

More specifically, owing to the special context of a top-down venture for a mid-end market by MMNEs, the specific path from thinking-action convergence (the first dimension of improvising as a motive) to BMI via dynamic capability can be the first sub-path for the salient link between improvising as a motive and BMI as an action, and the specific path from emergent creativity (the second dimension of improvising as an ability) to BMI via dynamic capability can be the second sub-path for the salient link between improvising as an ability and BMI as an action. These two sub-paths constitute the general path from improvising to BMI via dynamic capability as the mediator. Table 4.5 summarises our assessment of improvising on the two dimensions of thinking-acting convergence and emergent creativity with representative informant quotes.

In the six cases, FAB and PUM had high improvisation capability and obtained significant performance. We recorded the two cases' milestones and their timing in the process of BMI. FAB, for example, spent three months converting new ideas into product prototypes, five months developing the Zero Series product and three months on the final product. In other words, within 11 months, FAB developed and launched its new final products for the Chinese mid-end market. PUM also had a fast process for developing new products, spending two months converting new ideas into product prototypes and five months on the final product. Within eight months, PUM launched its new product for the Chinese mid-end market.

The common characteristics of FAB and PUM are a fast pace and quick adaptation in each stage of product development. At the same time, they carried out a large number of tests at every stage. Based on our observation, extensive testing accelerates the two cases' understanding and reconceptualisation of the products through trial and error learning. The team members made fast and flexible decisions to adjust their solutions based on their real-time experiences from the tests. As one team member in FAB said, *'...the situations change fast. They are not predictable. So we cannot plan and organise our actions to rely on prior routines from HQ. We need real data and improvisation to adjust our solutions. A fast pace and quick adaptations are central, competitive capabilities for us'*.

In order to improve subsidiary improvisation, the management at FAB HQ decided to let the Chinese subsidiary operate with extensive autonomy. As the CEO of FAB said, *'Our Chinese colleagues used to always ask for acceptance from their 'big brother' in Denmark. In many ways it was because it was convenient. We had to change this so that decisions were made by our Chinese colleagues'*.

In fact, FAB China is a completely independent unit with its own design, sales, logistics and quality control. A high degree of autonomy greatly enhances the improvisation ability of a subsidiary for sensing and seizing new opportunities, for value creation and value capture, and for fast decisions based on real data.

By confronting real data about actual results, such as an aspect of the design that does not work or works differently than anticipated, the product teams are firmly forced out of faulty preconceptions. Eisenhardt and Tabrizi (1995) found that testing increases development speed because it builds developers' confidence. When product teams test particular designs, the development process becomes more concrete and believable. We found that developers gained confidence because they have proactively engaged in a concrete action in an unpredictable process. As one manager in PUM mentioned,

'The setting is turbulent and uncertain. We need confidence to overcome this challenge. The business model innovation is an unpredictable process. Nobody knows what is right, what is wrong. In fact, we lack information for the future. So, we need special actions to test our ideas'.

Based on our data, one key insight is that BMI is a process in which developers are likely to update and improve their thinking frequently throughout the design process in response to concrete results. In this process, the capability of improvisation is very important for developers to make decisions and adjust their solutions quickly, thus accelerating the process.

In contrast, we did not find significant milestones in the BMI of the other four cases. For example, although the team manager at VET tried to identify new opportunities in the Chinese mid-end market, VET had no clear ideas or solutions for designing a new business model because the

managers at HQ were more inclined to use the original products and business model developed in their home country. Concerning the new business model, the general manager of EAR subsidiary had one primary solution to target one new market segment, but the managers at HQ were not willing to change their prior business model, as they were not open to the development of localised products that are relevant in China.

The common characteristics in the two subsidiaries were ‘wait and see’ because they did not have the autonomy and flexibility to conduct tests or develop their improvisation. As one team member from EAR said,

‘I believe that intuition and flexibility are very important because we have no prior experience in this new area. They can help me to cope with an unclear setting. But, now, I face a big problem because HQ asked me to submit a report based on data. If I have no chance to try, how I can get the data’.

The team manager at VET had the same feeling,

‘Designing a new business model in China is very difficult. My feeling is that HQ people are resisting this, as they may lose decision power and control. HQ is not willing to let the China setup be more autonomous. They want to control the China subsidiary and its strategy’.

Based on our data, one key observation is that people often procrastinate in the face of uncertainty in unpredictable situations. The four subsidiaries of EAR, VET, BEE and LIG wasted much time waiting for decisions from HQ. There is a big gap between planning and implementation, which weakens the improvisation capability. They lacked the resources and autonomy to conduct tests because the HQ was reluctant to see any failures. In fact, small, frequent failures are very motivating and create particularly rapid learning because they capture people’s attention but they are not so large as to raise denial or blocking defences (Sitkin, 1992). Owing to the lack of prior experiences and routines, they were not confident enough to act in highly uncertain situations.

In this study, we found that autonomy is an important influence on subsidiary improvisation capability. Autonomy refers to the freedom or independence of a subsidiary that enables it to make certain decisions on its behalf (Yong & Tavares, 2004).

According to a resource-based view, autonomy is an important resource for MNE subsidiaries to build new a business model in emerging markets. In dynamic environments, the centralisation of HQ is problematic because such dictatorial action often creates isolation and rigidity in the subsidiary (Staw et al., 1981). Some scholars have shown that HQ plays a critical role in the subsidiary-initiative process (Ambos et al., 2010). Autonomy has been shown to be an important influence on subsidiaries' local initiatives and innovation creation (Birkinshaw, 1996, 1997; Ghoshal & Bartlett, 1988). In our cases, the HQs of FAB and PUM gave high autonomy to their subsidiaries. In contrast, the HQs of EAR, VET, BEE and LIG centralised the main power in their own hands.

Autonomy is an important determinant for subsidiary improvisation. Improvisation is the degree to which composition and execution converge over time. The closer the time gap between planning and implementation, the more an action can be considered improvisational (Moorman & Miner, 1998; Poolton & Ismail, 1999). Without high improvisation, the subsidiary cannot develop a strong improvisation capability to fill the gap between planning and implementation.

A multifunctional top management team (TMT) is another important element that can influence subsidiary improvisation capability. FAB and PUM, which have a high improvisation effort, share the common characteristic of a multifunctional TMT. Both firms took a 'dual leadership approach'. For example, the general managers of FAB and PUM are both Danes, while the CSO (Chief Strategic Officer) and CTO (Chief Technology Officer) are Chinese. In contrast, all TMT members in BEE, VET and LIG are Danes. We would argue that a multifunctional TMT creates a wider range of knowledge and ideas which are very important for improvisation effort.

Table 4.6 Nationality of the TMTs in the Six Cases

Firms	Nationality of TMT		
	CEO	CSO	CTO
FAB	Denmark	China	China
PUM	Denmark	China	China
EAR	China	-	Denmark
BEE	Denmark	Denmark	Denmark
VET	Denmark	Denmark	Denmark
LIG	Denmark	Denmark	Denmark
Notes: CEO-general manager, CSO-director of sales department, CTO-product developer or director of R&D			

In sum, we have found that improvising is a primary enabler for BMI at the subsidiary level, but BMI requires special capabilities to manage the ambiguity and uncertainty of the BMI process. In this sense, the link between improvising and BMI, and the mediating role of dynamic capability for that link, can be reasonably established. The special context of cross-divide entry with a top-down venture for a mid-end market by MMNEs accentuates this link and role. Hence, such observations lead to our second set of propositions.

Proposition 3: For MMNE subsidiaries engaging in a top-down venture, improvising (thinking-acting convergence as the entrepreneurial motive and emergent creativity as the entrepreneurial ability for the subsidiary) will enable BMI via facilitating dynamic capability as the mediator.

Proposition 4: The special context of a top-down venture for a mid-end market by MMNEs will define the first motive-action sub-path from thinking-acting convergence to BMI via dynamic capability as the mediator, and the second ability-action sub-path from emergent creativity to BMI via dynamic capability as the mediator.

4.5 Discussion and Conclusion

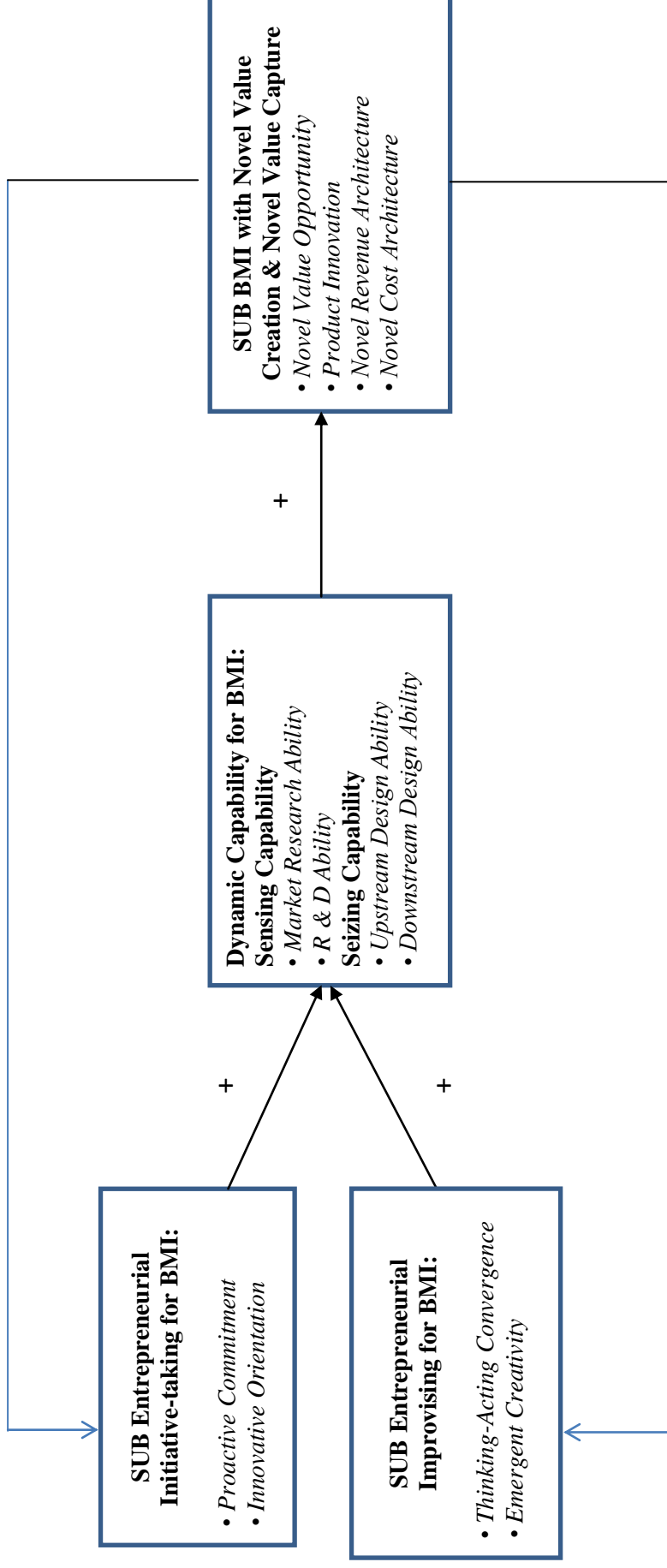
BMI plays a critical role in strategic renewal of established firms, including MMNEs (also large MNEs), especially in the special context of cross-divide entry with a top-down venture for a mid-end market in an emerging economy. This is because the contextual distances or gaps in advanced and emerging economies require BMI for cross-divide entry with top-down or bottom-up ventures for a mid-end market (Li, 2010, 2013a; cf. Ghemawat, 2001). However, there is surprisingly little research on the antecedents, roles, processes and mechanisms of BMI in general and those of BMI for MNE in the global context in particular. To close these gaps, the primary contribution of this study is a novel process framework connecting entrepreneurship (especially strategic entrepreneurship for established MNEs), dynamic capability and BMI (especially the link between dynamic capability and BMI in the global context for MMNEs). Next, we propose the process framework and explain the rationales for the causal links proposed in the framework.

4.5.1 Process Framework from Subsidiary Enabler to BMI

A primary contribution of this study is a novel process framework for subsidiary to enable BMI, especially in the special context of cross-divide entry with top-down venture for mid-end market by MMNEs. Figure 4.1 represents this framework with two sets of interrelated constructs. First, our process framework shows that initiative-taking enables BMI via dynamic capability. Even though initiative-taking has been shown to be helpful in enhancing a subsidiary's technological and managerial capabilities (Sargent & Matthews, 2006) and maximising a subsidiary's bargaining power over HQ (Delany, 2000; Gupta & Govindarajan 2000), our focus in this study on BMI for a successful cross-divide entry with a top-down venture for a mid-end market reveals a new perspective that subsidiary initiative-taking can enable BMI to take advantage of diverse novel opportunities in an emerging economy for MNEs from an advanced economy. In this context, initiative-taking has two core dimensions: proactive commitment and innovative orientation. Further, the enabling effect of initiative-taking on BMI is mediated by sensing capability (i.e. market research ability and R&D ability) to identify the novel opportunities in the host economy for

value creation (i.e. novel value proposition and product innovation) as well as seizing capability (i.e. upstream value-chain design ability and downstream value-chain design ability) to configure the novel operations in the host economy for value capture (i.e. novel cost architecture and novel revenue architecture). This new perspective can shed a unique light on subsidiary initiatives (cf. Ambos et al., 2010; Birkinshaw et al., 2005; Dorrenbacher & Geppert, 2010).

Figure 4.1 Final Process Framework from Subsidiary Entrepreneurship to BMI via Dynamic Capability



Second, our process framework reveals that improvising enables BMI via dynamic capability. Even though improvising has been shown to be helpful in product innovation and organisational renewal (Kamoche, Cunha & Cunha, 2003), our focus in this study on BMI for a successful cross-divide entry with a top-down venture for a mid-end market reveals a new perspective that subsidiary improvisation can enable BMI to take advantage of diverse novel opportunities in an emerging economy for MNEs from an advanced economy. In this context, improvising has two primary dimensions: thinking-acting convergence and emergent creativity. Further, the enabling effect of improvising on BMI is mediated by sensing capability (i.e. market research ability and R&D ability) to identify the novel opportunities in the host economy for value creation (i.e. novel value proposition and product innovation) and seizing capability (i.e. upstream value-chain design ability and downstream value-chain design ability) to configure the novel operations in the host economy for value capture (i.e. novel cost architecture and novel revenue architecture). This new perspective can shed light on improvising (cf. Eisenhardt & Tabrizi, 1995; Kamoche et al., 2003; Moorman & Minor, 1998).

In sum, our process framework addresses two fundamental questions: (1) what are the drivers that enable BMI and (2) how do such drivers function in the global context of MNEs? To fully answer the two questions, we still have to provide the compelling rationales for the enabling roles of both initiative-taking and improvising in the process of BMI, especially in the special context of cross-divide entry with a top-down venture for a mid-end market.

4.5.2 Core Rationales and Primary Contributions

To provide a complete set of rationales for the process framework, we need to explain the path from initiative-taking to BMI and the path from improvising to BMI. First, for the question why initiative-taking is so critical to BMI, especially for MMNEs to engage in cross-divide entry with a top-down venture for a mid-end market, we evoke dynamic capability (with sensing capability and seizing capability as its two core dimensions) as the primary mediator between initiative-taking and BMI. Second, for the question why improvising is so critical to BMI, especially for MMNEs to

engage in cross-divide entry with a top-down venture for a mid-end market, we also evoke dynamic capability (with sensing capability and seizing capability as its two core dimensions) as the primary mediator between improvising and BMI. Third, for the question why dynamic capability serves as the mediator, we posit that resource or capability is the underlying mechanism to undergird action or behaviour (Barney, 1991, 2001; Teece, 2007). In other words, BMI does not happen automatically; special capabilities are required to design and implement BMI. Since dynamic capability is the meta-capability to create and renew ordinary capabilities (Collis, 1994; Teece, 2007; Winter, 2003), it directly undergirds BMI. Further, a general process of BMI can have five phases: mobilise, understand, design, implement and manage (Osterwalder & Pigneur, 2010). We can reframe the first three phases in connection with value creation via sensing capability, while the last two phases are related to value capture via seizing capability. Additionally, Zott and Amit (2010) identified two sets of salient parameters for BMI: (1) design elements (e.g. content, structure and governance for the architecture of BMI) and (2) design themes (e.g. novelty, lock-in, complementarity and efficiency for the sources of BMI). Again, we can reframe the design themes in connection with value creation via sensing capability, while the design elements are related to value capture via seizing capability. In this sense, the inherent links between initiative-taking and BMI, and between improvising and BMI, can be reasonably established, as is the mediating role of dynamic capability for that link. The special context of cross-divide entry with a top-down venture for a mid-end market by MMNEs only accentuates the above link and role.

Notably, we have two additional insights: (1) we only need sensing and seizing capabilities as the core dimensions of dynamic capability because these two can readily substitute transforming capability (the original third dimension) and (2) for the business model, value creation focuses on the interest of customer as the primary stakeholder, while value capture is for the interests of all others as the secondary stakeholders. In sum, the specified link between BMI and dynamic capability, especially the link in the special context of cross-divide entry with a top-down venture for a mid-end market by MMNEs is the first core contribution of this study. This contribution

enriches the literature on dynamic capability, the business model (especially BMI) and strategic renewal of mature firms (including MNEs in general and MMNEs in particular).

Further, the HQ-subsubsidiary relationship can take two forms, i.e. the typical vertical relationship with the focus on conflict with bargaining power and the horizontal relationship with the focus on cooperation with partnership. While the vertical form of the HQ-subsubsidiary relationship seems common among large and small MNEs due to the tension between the need for control by the HQ and the need for autonomy by the subsidiary, the horizontal form of the HQ-subsubsidiary relationship is more imperative for MMNEs. This is largely for two reasons. First, given the acute lack of slack resources for MMNEs relative to large MNEs, there is a greater need for the HQ and the subsidiary of MMNEs to cooperate as partners to best leverage the limited resources, rather than fighting for control by the HQ or autonomy by the subsidiary. Second, given the acute burden of organisational inertia for MMNEs relative to small MNEs, there is a greater need for the HQ and the subsidiary of MMNEs to cooperate as partners to best unlearn old routines and assumptions for an effective balance between global integration and local responsiveness with the mutually accommodating flexibilities from the HQ and the subsidiary, rather than fighting for control by the HQ or autonomy by the subsidiary. Despite the focus of the prevailing literature on the conflict between the HQ and the subsidiary in a vertical relationship (see Paterson & Brock, 2002 for a review), there is potential for the collaboration between the HQ and the subsidiary as partners in a horizontal relationship. It is worth noting that we have two more insights: (1) the vertical relationship is largely for the reduction of transaction cost via control, while the horizontal relationship is primarily for the enhancement of *transaction value* via trust (Li, 2007, 2010) and (2) a mixed top management team at the subsidiary level (e.g. a mix of both expatriates and local hires as team members) is more effective for BMI than a homogenous team.

In sum, the horizontal HQ-subsubsidiary relationship as a cooperative partnership, especially the relationship in the special context of cross-divide entry with a top-down venture for a mid-end

market by MMNEs is the second core contribution of this study. This contribution enriches the literature on the HQ-subsidary relationship, subsidiary initiative, MNE network and global strategy.

Finally, the above two rationales and two contributions share a underlying theme concerning the potential role of entrepreneurship in the fields of strategic management and international business, which has been largely neglected (Grogaard, Verbeke & Zargarzadeh, 2011; Tallman, 2014; Teece, 2014). It is interesting to note that BMI and dynamic capability are directly related to the emerging research stream on strategic entrepreneurship, while the subsidiary initiative is also related to strategic entrepreneurship. Our case evidence shows that improvising is related to strategic entrepreneurship. Further, the special context of cross-divide with a top-down venture for a mid-end market by MMNEs renders strategic entrepreneurship more imperative than any other types of context for strategic entrepreneurship. Hence, we clearly see the potential synergy at the nexus between three currently segregated research fields, i.e. international business, strategic management and entrepreneurship. This potential synergy can be achieved by integrating the above three research fields into one new stream, which we call *international strategic entrepreneurship (ISE)*.

Specifically, the special context of cross-divide entry with a top-down venture for a mid-end market by MMNEs renders both BMI and dynamic capability salient and imperative in the integrated field of ISE. This is because cross-divide entry for a mid-end market is categorically distinctive from the traditional role of MNEs when an MNE simply follows its traditional home and international customers into emerging economies without the urgent need for BMI. When MNE targets a mid-end market in an emerging economy, it focuses on the local customers in the emerging economy as the host market, which renders the traditional BMI largely irrelevant and obsolete. This delineates the domain of the first leg of ISE, i.e. ‘international’.

The second leg of international strategic entrepreneurship is ‘strategic’, which suggests that we focus on the opportunities and challenges confronting established or mature firms, rather than new start-ups (Birkinshaw, 1997, 2000; Sharma & Chrisman, 1999; Verbeke et al., 2007). This aspect can be best covered by dynamic capability and BMI in general and their roles in the global context

of MNEs in particular (Li, 2010, 2013a; Tallman, 2014; Teece, 2014). In particular, the challenges of strategic renewal can be effectively managed by dynamic capability (with sensing and seizing capabilities) and BMI (with novel value creation and novel value capture). The key to strategic management of established firms is to remain entrepreneurial in spirit and competence (including dynamic capability) to engage effectively in BMI on a continuous and sustainable basis.

The third and final leg of international strategic entrepreneurship is ‘entrepreneurship’, which is the most salient and imperative among the three legs. This is because the last leg addresses the core questions of why we need entrepreneurship and how we can manage entrepreneurship in the challenging context of established firms in general and MNEs (MMNEs) in particular. As we know too well, established firms suffer from the serious burden of organisational inertia or the lock-in effect, which often turns core competence into core rigidity (Leonard-Barton, 1995). Hence, the challenge of entrepreneurship is much larger to established firms than new start-ups, so the challenge to large MNEs and MMNEs is bigger than that to small ones (Li, 2010, 2013a). However, the imperative issue of entrepreneurship has not received the needed attention in the field of international business, with the exception of research streams on ‘born-global’ start-ups (e.g. Knight & Cavusgil, 2004) and subsidiary initiatives (e.g. Birkinshaw, 2000); thus, it is necessary to incorporate entrepreneurship and strategic entrepreneurship into the research on MNEs (Groggaard et al., 2011; Teece, 2014). This urgent need to focus on entrepreneurship is made necessary by the special context of cross-divide entry for a mid-end market by MNEs because the old core competence and established routines become largely obsolete and irrelevant when an MNE from one side of the global divide enters the other side of the global divide as ‘unchartered water’, which has the highest possible liability of foreignness. However, strategic entrepreneurship can help the transition through BMI via dynamic capability. In particular, entrepreneurial *bricolage*, which is defined as an effort that entrepreneurs ‘make do’ by applying new combinations of resources at hand to new challenges (Baker & Nelson 2005), can facilitate strategic entrepreneurship. Specifically, we posit that bricolage is closely tied to proactive commitment (part of initiative-

taking) and related to thinking-acting convergence (part of improvising) (Moorman & Minor, 1998). Since bricolage focuses on the remix of existing resources, rather than creating novel resources, we frame bricolage as a weaker form of strategic entrepreneurship. This is similar to Schumpeter's version of entrepreneurship as a moderate form of entrepreneurship for opportunity discovery, in contrast to the strong form in the sense of Lachman and Shackle for opportunity creation (Alvaraz & Barney, 2010; Chiles et al., 2010; Li, 2013b).

In addition, entrepreneurial *unlearning*, which is defined as the suspension of existing knowledge and assumptions for open-minded exploration (cf. Tsang & Zahra, 2008; Zahra et al., 2011), can further facilitate strategic entrepreneurship in a distinctive pattern. Specifically, we posit that unlearning is closely tied to innovative orientation (part of initiative-taking) and emergent creativity (part of improvising). Since unlearning focuses on the creation of novel resources, rather than remixing old resources, we frame unlearning as a stronger form of strategic entrepreneurship. This is similar to the strong version of entrepreneurship as envisioned by Lachman and Shackle for opportunity creation rather than opportunity discovery (Alvaraz & Barney, 2010; Chiles et al., 2010; Li, 2013b). Both bricolage and unlearning are made the most salient and imperative by the special context of cross-divide entry to a mid-end market by MMNEs. In sum, the integrated research stream of ISE for MNEs in general and MMNEs in particular is the third core contribution of this study. This contribution enriches the literature across the three fields of international business, strategic management and entrepreneurship as an integrated core.

4.5.3 Limitations and Conclusion

Like all studies, this study has its limitations. For example, using the longitudinal data over two years, we only covered the early stage of the BMI for the six sampled firms. Our research is the first step in addressing the empirical challenge of opening the 'black box' to the BMI process for cross-divide entry to a mid-end market. Further, this study only sampled the MMNEs from Denmark to China; thus, a two-country design was employed rather than a multi-country network design. Finally, this study focused heavily on the perspective of the subsidiary rather than the matched

perspectives of both the HQ and the subsidiary. Future research projects should address the above three limitations.

By focusing on how an MMNE's subsidiary enables BMI in the context of cross-divide entry with a top-down venture for a mid-end market, this study has the potential to contribute to the literature of three fields toward an integrative research on ISE. Based upon rich field data, our primary contribution is a novel process framework with two sets of constructs. In particular, this study has sought to fill the major gaps in the literature concerning the potential links between BMI and dynamic capability as well as their likely links with subsidiary entrepreneurship, especially in the context of cross-divide entry to a mid-end market by MMNEs.

Future research needs to focus on the further theoretical refinement and empirically test the process framework with dynamic capability and BMI in the global context of cross-divide entry as the core of ISE. Additionally, we must more firmly establish the integrative field of ISE. In particular, the roles of bricolage and unlearning in BMI and their links with dynamic capability are worthy topics for future research, especially their potential links with initiative-taking and improvising as two mechanisms of *emergence* for subsidiary entrepreneurship (cf. Sawyer, 2000).

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Chapter 5: An Integrative Process Framework of BMI by MMNEs

Yangfeng Cao

Abstract

Business model innovation (BMI) has been seen as a critical driver of competitive advantage by scholars and practitioners. Established multinational enterprises (MNEs) must renew their existing business models when they enter fundamentally distinctive host countries to both create and capture novel values. One salient, but often neglected, research question is how medium-sized multinational enterprises (MMNEs) enable BMI in emerging markets. Using a comparative and longitudinal case study method, I seek to explore the process of BMI in nine Danish MMNEs that have engaged in BMI in China. I have found three phases (i.e. Pre-BMI, BMI Proper, and Post-BMI phases) in the overall process of BMI with both antecedents and consequences, and four stages in the specific process of BMI proper (i.e. exploring, experimenting, constructing and consolidating stages). Finally, I have specified the primary enablers and barriers for BMI across the three phases and the four stages.

Keywords: *Business Model Innovation, Dynamic Capability, International Strategic Entrepreneurship, Medium-Sized MNE, Mid-End Market*

5.1 Introduction

The business model is defined as a firm-specific, yet open, holistic system of well-coordinated functional activities on the dual dimensions of resource configuration (activity content) and task coordination (activity process) for the dual purposes of value creation and value capture (cf. Amit & Zott, 2012; Li, 2010; Zott et al., 2011). Business model innovation (BMI) is defined as a higher-order innovation compared to lower-order product, service and process innovations (cf. Amit & Zott, 2012; Collis, 1994; Mitchell & Coles, 2003; Zott et al., 2011).

A series of studies have shown that business model innovation (BMI) is essential to a firm's competitive advantage and performance. As a result, BMI has become increasingly important both in research and practice (Casadesus-Masanell and Ricart, 2010; Markides and Charitou, 2004; Morris, Schindehutte and Allen, 2005; Zott, Amit and Massa, 2011). BMI is different from product/service or process innovation. As a higher-order innovation, BMI must always occur at the system level in terms of coordinated innovations in at least two functional areas, which result in the change in both of the dual dimensions (i.e. resource configuration and task coordination) for the dual purposes (i.e. value creation and value capture) (Teece, 2007). Consequently, BMI affects the whole organisation in a holistic way (Amit and Zott, 2001; Casadesus-Masanell, Zhu, 2013).

From a dynamic perspective, engaging in BMI is a complex process over time. Some scholars have argued that business model takes shape through a process of experimentation, adaptation and learning (Hayashi, 2009; McGrath, 2010; Demil and Lecocq, 2010). However, few prior studies have focused on exploring the entire process of BMI. Two single-case studies have explained how and why corporate-level BMI evolved as a trial-and-error learning process with different stages (e.g. Aspara, Lamberg, Laukia and Tikkanen, 2011; Sosna, Trevinyo-Rodríguez, and Lecocq 2010). The shared feature of these two studies is that they both focus on the corporate-level BMI of big multinational enterprises (MNEs) in their home-country context. However, MNEs will face different challenge for business model innovation when they entry into other host countries from home countries because there is distinctive context that will dictate their BMI in host countries. In particular, medium-sized multinational enterprises (MMNEs) tend to differ from both large and

small MNEs due to the lack of slack resources compared to large MNEs and the lack of flexibility compared to small MNEs. Hence, MMNEs often have their own unique process of BMI, which is worthy of special attention.

The purpose of this study is to explore the process of BMI and identify barriers and drivers in the special context of cross-divide entry with a top-down venture by MMNEs. For the purpose of theory-building with a focus on process-related issues, I chose to employ the qualitative method of a comparative and longitudinal case study. This study seeks to make contributions to the literature on BMI and the emerging research on international strategic entrepreneurship (ISE) by proposing an integrative three-phase process framework with a four-stage process model as the core component to explain how MMNEs engage in BMI in the context of a top-down venture.

The remainder of this study is organised into four sections. First, I review the relevant literatures to describe the background for BMI by MMNEs with a top-down venture. Second, I describe the case study method. Third, based upon the case evidence and comparing it with the literature, I propose an integrative process framework of BMI by MMNEs. Finally, I discuss the key implications of this study for future research and make conclusions.

5.2 Theoretical Background

A business model is defined as a firm-specific, yet open, holistic system of well-coordinated functional activities on the dual dimensions of resource configuration (activity content) and task coordination (activity process) for the dual purposes of value creation and value capture (cf. Amit & Zott, 2012; Li, 2010; Zott et al., 2011). Based on this definition, I refer to BMI as a higher-order innovation compared to lower-order product, service and process innovations (cf. Amit & Zott, 2012; Collis, 1994; Mitchell & Coles, 2003; Zott et al., 2011). Further, as a higher-order innovation, BMI must always occur at the system level in terms of coordinated innovations in at least two functional areas, which result in the change in one or both of the dual dimensions (i.e. resource configuration and task coordination) for the dual purposes (i.e. value creation and value capture).

BMI is the key to a firm's competitive advantage and performance, and it is becoming increasingly a central topic of research in strategic and entrepreneurial management. In some studies, BMI is described as an outward-facing, highly creative exploratory process; a type of organisational innovation in which firms identify and adopt novel opportunity portfolios (Johnson et al., 2008; Teece, 2010). Next, we focus on two questions about BMI: *what* factors influence BMI? And *how* do firms engage in BMI?

5.2.1 Dynamic Capabilities and BMI

Dynamic capability is framed as the cornerstone of competitive advantage and the driver for adaptability and innovativeness (Eisenhardt and Marin, 2000; Najmaei, 2011), and it is closely related to BMI (Leih, Linden and Teece, 2015). According to Teece, (2007, 2010, 2012), dynamic capabilities are higher-level competences that determine the firm's ability to integrate, build, and reconfigure internal and external resources/competences to address, and possibly shape, rapidly changing business environments. BMI involves systematic innovation activities and is 'higher-order innovation' which needs to get the support of dynamic capabilities. Unlike other general or ordinary innovations, BMI emphasises the redesign of organisational processes, new customer segment and value chain. In this sense, firms must leverage their dynamic capabilities for BMI.

5.2.2 Strategic Entrepreneurship and BMI

Strategic entrepreneurship (also called corporate entrepreneurship) refers to the effort by an established firm to identify, evaluate, select and pursue opportunities (Ireland, Hitt and Sirmon, 2003), which are related to BMI in terms of value creation and value capture (Klein, Barney and Foss, 2013). Applying strategic entrepreneurship to MNEs as international strategic or corporate entrepreneurship (Zahra, Neck and Kelley, 2004), the relationship between the headquarters (HQ) and the subsidiary will shape MNEs' BMI at the subsidiary level in the host markets (Birkinshaw, 1997, 2000). Some scholars classify the role of HQ into 'entrepreneurial' (for value creating) and 'administrative' (for loss preventing) (e.g. Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006). No matter which role of HQ in innovation, the involvement level of HQ in the innovation process at

the subsidiary level should match the extent HQ knows about the subsidiary's operations. However, if HQ knows little about the subsidiary's operations, it can still influence the subsidiary through other means. For example, Chapter 3 has shown that aspiration and flexibility at the MMNEs' HQ level are the two important factors that influence the process of BMI at their subsidiaries.

5.2.3 Unlearning and BMI

Unlearning is defined as the suspension of existing knowledge, routines and assumptions for open-minded exploration (cf. Tsang & Zahra, 2008; Zahra et al., 2011). Specifically, unlearning is closely tied to innovative orientation (part of initiative-taking) and emergent creativity (part of improvising) because unlearning focuses on the creation of novel resources and routines, rather than reconfiguring old resources and routines. I frame unlearning as the strongest form of strategic entrepreneurship. This is similar to the strongest form or version of entrepreneurship, envisioned by Lachman and Shackle, for opportunity creation rather than simply for opportunity recognition via alertness for arbitrage, envisioned by Kirzner, and opportunity discovery via the recombination of existing elements for creative destruction, envisioned by Schumpeter (Alvaraz & Barney, 2010; Chiles et al., 2010; Li, 2013b).

5.2.4 The BMI Process

Concerning how to push BMI or design a new business model, some scholars take a static approach and view business model design as a blueprint for the coherence between core business model components (Demil and Lecocq, 2010). For example, Osterwalder and Pigneur (2010) developed a business canvas which includes nine core business model components: customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structure. On this basis, they developed a further model for business model design that includes five phases: mobilise, understand, design, implement and manage.

Other scholars take a transformational approach and contend that the business model takes shape through a process of experimentation, adaptation and learning (Hayashi, 2009; McGrath, 2010;

Sosna, Trevinyo-Rodríguez, and Lecocq, 2010; Demil and Lecocq, 2010; Aspara, Lamberg, Laukia, and Tikkanen. 2011), which might differ for different organisations in different competitive landscapes (Zott and Amit, 2011). For example, Demil and Lecocq (2010) viewed business model evolution as a fine-tuning process involving intended and emergent changes between and within its core components. They also adapted the RCOV (RC: Resource and Competences; O: Organisation; V: Value proposition) framework to reconcile the two approaches. Using knowledge-intensive organisations as cases, Sheehan and Stabell (2007) developed a three-step process to generate a new business model especially for these kinds of organisations: (1) identify the type of knowledge intensive organisation, (2) plot rivals' competitive positions, (3) generate new business models.

How an established company innovates its business model is an important topic in the BMI area. However, few research studies focus on this topic. Some research has incorporated a dynamic perspective on this topic (Sosna, Trevinyo-Rodríguez, and Lecocq 2010). For example, Morris, Schindehutte and Allen (2005, 733) said, *'It is possible to envision a business model life cycle involving periods of specification, refinement, adaptation, revision, and reformulation. An initial period during which the model is fairly informal or implicit is followed by a process of trial and error, and a number of core decisions are made that delimit the directions in which the firm can evolve'*. Using a single case study of a Spanish dietary products business, Sosna, Trevinyo-Rodríguez, and Lecocq (2010) found that BMI of an established company is a trial-and-error learning process comprising four stages: (1) exploration – initial business model design and testing, (2) exploration – business model development, (3) exploitation – scaling up the refined business model, and (4) exploitation and further exploration – sustaining growth through organisation. Another single case is Nokia, which Aspara et al. (2011) used to explain how and why corporate level strategic change may build on historical differentiation at the business unit level. They found that a key mechanism in the business model evolution is the exchange of executives and cognitive mind-sets between business units and corporate HQ (Aspara et al., 2011).

In sum, for most firms, BMI rarely happens automatically. Firms often take BMI due to contextual changes (e.g. competition or deregulation) or internal choices (e.g. to gain competitive advantages or increase operating efficiency) (Wischnevsky, Damanpour and Meéndez, 2011). BMI always requires the special knowledge and capabilities required to manage ambiguity and uncertainty in the process. In this research study, we take a dynamic perspective, and focus on MMNEs BMI over time to explore the process, barriers and drivers.

5.3 Method

In this research, I adopted the method of a comparative and longitudinal case study for theory-building due to the lack of related theories and the specific focus on process issues for which a case study is best (Eisenhardt, 1989; Pettigrew, 1990). My research design was a multiple-case study that adopted the replication logic, which treated a series of cases as a series of lab experiments. Each later case served to confirm or disconfirm the inferences drawn from the earlier cases (Eisenhardt, 1989, 1991; Eisenhardt and Graebner, 2007; Yin, 1994).

MMNEs play a critical role in global competition often as the hidden champions (Simon, 2009), but the actual internationalisation process, especially the BMI process of such MNEs has attracted little academic attention, thus indicating an urgent need for research (Keupp and Gassmann, 2009). This research setting was MMNEs based in developed economies but operating in emerging economies as a top-down venture. Further, this study was part of the project of *Suitable for Growth* (SfG), which was sponsored by the Danish Industry Foundation and the Universe Foundation in Denmark. The project goal was ‘to develop a generic framework for penetrating mid-end markets in emerging economies using China as a primary case, and to develop some viable operating models that can help medium-sized Danish companies develop their own business strategies to penetrate such mid-end markets’.

In this research, I used nine Danish MMNEs as cases to track their BMI processes at the subsidiary level in China. All samples firms were established firms, with long corporate histories; six firms were over 100 years old. The nine companies were from different industries: fabric,

pumps, medical equipment, beverage equipment, veterinary equipment, lighting equipment and the food industry (see Table 5.1 for more details). All of the firms had subsidiaries in China at the start of data collection. Six firms, referred to as FAB, PUM, VET, LIG, EAR and BEE are participants of SfG projects, while the other three firms, referred to as ALA, NIA and FOO, are not. The former six firms are in the process of innovating their business models for mid-end markets; the latter three firms have innovated and implemented their business models for Chinese middle class customers.

5.3.1 Data Collection

I relied on several different data sources, including (1) qualitative data from semi-structured interviews with CEOs and other informants; (2) archival data, including the BMI project reports and other internal documents; and (3) phone calls, emails and follow-up interviews, which were only used to confirm some information collected through other means. The primary source of data was from around 70 semi-structured interviews conducted at the HQs and subsidiaries. The average duration of the interviews was two hours (ranging from one to three hours).

I collected longitudinal data from the six participant firms. Since January 2011, the research team visited the HQs or subsidiaries of the six firms and interviewed the top managers and BMI project team members at least once every quarter. The Universe Foundation also hosted four workshops (three days for each workshop) in China, where I collected both quantitative and qualitative data from the team members of all six BMI projects.

Table 5.1 Descriptions of the Cases

Firm Name	Industry Type	Established (Years)	Revenue in 2011 (Million DKK)	Number of Employees (Global)	Subsidiary Established in China (Year)
FAB	Fabric	1850s	260	60–100	2003
PUM	Pump	1830s	700	450–500	2005
EAR	Medical Equipment	1860s	650	450–500	1994
BEE	Beverage Equipment	1950s	900	550–600	1994
VET	Veterinary Equipment	1890s	752	200–250	2006
LIG	Lighting Equipment	1980s	714	650–700	2003
ALA **	Food Industry	1880s	-	-	1984
NIA **	Clearing Equipment	1900s	-	-	2000
FOO **	Instruments	1950s	1700*	1000	1970

Notes: * Global Turn over in 2013. ** The company is not a participant of the SfG project.

In this study, I had three types of informants. The first informants were the top managers at the HQ, including those who had direct control over the overall corporate strategy (e.g. chairman, CEO, president and vice presidents at the HQ). The second were the top managers at the subsidiary who had direct control over the overall strategy of a subsidiary (e.g. general manager and deputy general manager at the subsidiary). The third informants were the team members of the BMI projects who

directly managed the BMI project, some residing at the HQ and some residing at the subsidiary.

Concerning the three firms who have successfully innovated their business models, I searched data from interviews, and interviewed different managers from the HQ and Chinese subsidiaries to review the entire BMI process. Based on these interviews, I identified the key events which occurred in the BMI process. At the same time, I selected archival data about their BMI. Having diverse informants from multiple hierarchical levels can greatly reduce potential information bias (Golden, 1992; Miller, Cardinal and Glick, 1997).

Each interview was conducted by two investigators; one who was primarily responsible for the interview, while the other was responsible for taking notes. After the interview, I followed the '24-hour rule' requiring that the detailed interview notes and impressions were completed within one day of the interview (Bourgeois and Eisenhardt, 1988; Yin, 1994).

5.3.2 Data Analysis

Following the recommendations for multiple-case theory building (Eisenhardt, 1989; Eisenhardt and Graebner, 2007), I used both within-case and cross-case analyses with no a priori hypotheses. I began by writing up each BMI story based on the interviews, surveys and archival data about each case (Eisenhardt, 1989; Yin, 1994). Each BMI story provided the mapping of all the relevant events in each BMI process. After the initial write-up of each BMI story, the research team members discussed each BMI story. For any missing details, I conducted additional interviews via either emails or Skype phone calls. Finally, I synthesised all the data into one finished BMI story.

For the within-case analysis, I took each specific case (in the form of BMI story) as the unit of analysis. At this stage, I focused on identifying the unique pattern of each BMI story. From the patterns emerging from the within-case analysis, we developed our tentative theoretical constructs. Second, using the replication logic, we conducted the cross-case analysis. I used tables and charts to look for the emergence of shared themes across multiple cases (Eisenhardt, 1989). I iterated between theory and data to clarify our specific findings and theoretical arguments in order to refine our tentative theoretical constructs. Finally, these iterations helped yield our final theoretical

framework. Our approach is not the same as the classic grounded theory approach given our initial literature review and tentative framework, but we have followed the spirit ('open mind') rather than the letter ('empty head') of the classic grounded theory approach (cf. Dey, 1999; Eisenhardt, 1989; Li, 2012).

5.4 The Phase of Pre-BMI: Leverage Prior Advantage and Replicate Old Business Model for a High-End Market

Most Danish MMNEs lack the knowledge, resources and capability to go directly into the Chinese mid-end market, which is very different from their prior high-end markets in their home country. The temporary and effective strategy in the initial stage of their business in China is to replicate their old business model that was developed for Western high-end markets. In this way, MMNEs can leverage their prior products or services and other advantages to build a platform and beachhead from which the companies can further develop their new business model for mid-end markets.

In order to build a platform and beachhead in the initial replication stage, MMNEs need to take three key courses of action: (1) focus on core key customers, (2) upgrade their subsidiary's mandate and (3) build a local subsidiary.

5.4.1 Three Major Steps to Build a Platform as a Beachhead

5.4.1.1 Get a Foothold by Focusing on Key Customers in the Chinese High-End Market

In this research study, all nine Danish companies have a long history and are not born-global firms. LIG, which is the youngest of the six firms, for example, was established more than 30 years ago. BEE and FOO have a 60-year history. The other five MMNEs have more than 100 years' history. All nine MMNEs have proven products, technologies and experiences for their prior customers in their home country which are significant advantages that can be leveraged when entering into the Chinese market.

In fact, the six MMNEs participating in the SfG program have entered China by initially penetrating the high-end segment, focusing and selling products to global multiple national companies or large Chinese international customers who are rather similar to customers in the

Western markets. In this way the companies have more or less replicated their existing Western business model and products to the Chinese high-end markets, operating there like ‘business as usual’.

5.4.1.2 Upgrade and Reposition the Mandate for Chinese Mid-End Market

For decades, Danish MMNEs have used China for sourcing low-cost products and parts for their global high-end assortment. However, over the last 5–10 years, the role of China has changed. It is no longer just the ‘factory of the world’, but an important and rapidly growing market and pool of new resources. The huge market opportunities have attracted many Danish MMNEs to enter China. Based on this research, I found most Danish MMNEs have historically entered China for the following two reasons. The first reason is to seek market opportunities, either by following their large global customers or to exploit the huge growth opportunity in the market. The second is to seek low-cost resources through the exploitation of manufacturing and human resources to obtain a cost advantage for their global products.

No matter what the reason to enter China, the MMNEs found that the Chinese market grew faster and has more business opportunities than their home country. Therefore, most of the MMNEs have changed their primary mind-set for the Chinese market and adjusted their primary strategies, meaning they have improved their ambitions and upgraded and repositioned their mandate for the Chinese market, which is necessary for designing a new business model in the future.

For example, FAB entered China in 2003. FAB’s primary purpose was to seek low-cost textiles for its European customers. At that time, the Danish HQ of FAB viewed China as a sourcing platform, and its Chinese office did not sell any products in China. In around 2005, FAB China found new opportunities in the China fabric market. The China office started to sell fabric to the big Chinese customers and to Western furniture companies that were manufacturing in China. As one manager in China said,

‘Our primary purpose was to buy low-priced textiles for our headquarters in Denmark. HQ sold products to global customers. The key task of our Chinese office in the first two years was to find

local sourcing partners. But, from around 2005, we began to sell products to big Chinese firms. The China office changed its mind-set based on the local market situation’.

5.4.1.3 Establish Local Organisation to Support High-End Customers

In the phase of Pre-BMI, the third key course that MMNEs need to take is to build a local subsidiary and a local team to take responsibility for sourcing, production and building a local distribution and sales network to reduce costs, improve time to market and to service and support the high-end customers. The six Danish companies established different set-ups in China in terms of different primary strategies. For example, FAB and VET established local source offices, PUB and LIG built their production factories, EAR established a sales office and BEE built a joint venture.

At the same time, the MMNEs also need to build a local network with local distributors and suppliers. Owing to the lack of local market knowledge and relationships with local customers, most of the MMNEs found local distributors to sell products and provide services to high-end customers. For example, PUM found a local distributor to help it to sell pumps to customers. One informant said, *‘At first, we did not have enough local knowledge about the market. The best way was to find a good partner to cooperate with. Our factory focused on manufacturing’.*

5.4.2 Two Major Barriers to Replicating the Old Business Model in the Pre-BMI Phase

For MMNEs, the common barriers in the pre-BMI phase were a lack of knowledge of local customers and markets, lack of management experience of local subsidiaries, and lack of brand image to attract Chinese talents.

5.4.2.1 Lack of Knowledge about Local Customers and Local Contexts

Most Danish MMNEs have limited knowledge about China’s local customers and markets because MMNEs lack international managers with good knowledge and experience about China. In order to control and manage a China subsidiary, I found that most MMNEs preferred to send Danes from their HQ in Denmark to China as general managers of the China office. Although, this was very useful for communicating and maintaining the trust and commitment of the management back at HQ, it slowed down the process of BMI in China. Since China and Denmark have very different

market environments, the Danish managers who do not stay in China for several years could not understand the real needs of the local customers or the structure and roles of the markets, which are very important for BMI.

Establishing a successful subsidiary or innovating a new business model in China requires the general manager to be very familiar with the Chinese culture and have many local relationships in China. Limited knowledge of local customers and the market is an important factor which hinders BMI. For example, the HQ of VET sent a Danish manager to China as the general manager despite his limited experience of the Chinese market. The manager spent considerable time trying to understand the Chinese local market and communicating with local partners; however, the effect was not obvious.

Owing to a lack of experience of China, managing a local subsidiary and team is also a big challenge for Danish managers. As one Chinese general manager said,

'Even a Western person who has lived in China for decades and is considered a China expert is only floating on the surface. They will not get deep down close to the Chinese employees in the same way a native Chinese can. The employees will say yes, but they mean no'.

5.4.2.2 Lack of Brand Recognition and Good Policy to Attract Local Talents

One research study shows that attracting talent in emerging markets has always been a challenge for Western multinationals, but historically they have enjoyed a big advantage: local workers have viewed them as employers of choice, offering higher status and better career prospects than domestic companies. Now that attitude is shifting, and a growing proportion of high-potential Chinese workers see domestic employers as a better bet. Western companies' hiring advantage is weakening (Schmidt, 2011).

Although, more Chinese professionals still want to work for Western rather than domestic companies, the MMNEs had a little trouble hiring top graduates of China's most prestigious universities. One reason is their low brand awareness. One manager from EAR said, 'Compared to big multinational firms, my firms' brand is weak. It is also a BtoB firm. Few people know this

brand. We do not have the advantage in the labour market, so we face a big challenge hiring Chinese talent because we cannot get enough candidates to select'. Another reason is that local talents cannot see from MMNEs overall career stability or long-term career development opportunities. Table 5.2 shows the MMNEs objectives, courses and barriers in this stage.

Table 5.2 Replication in the Pre-BMI Phase: Objectives, Steps and Barriers

	Major Objectives	Major Steps	Major Barriers
FAB	<ul style="list-style-type: none"> • Get cost advantage for the global products • Follow its large global customers and seek market opportunities 	<ul style="list-style-type: none"> • Establish a sourcing office • Build local suppliers network Foothold, mandate update, local organisation	<ul style="list-style-type: none"> • Lack of skill to build relationship with Chinese partners • Lack of brand image to attract Chinese talents
PUM	<ul style="list-style-type: none"> • Follow its large global customers and seek market opportunities 	<ul style="list-style-type: none"> • Establish a factory • Search and find local distribution partners 	<ul style="list-style-type: none"> • Lack of local market knowledge • Lack of brand image to attract Chinese talents
EAR	<ul style="list-style-type: none"> • Exploit huge growth opportunity in the market 	<ul style="list-style-type: none"> • Establish a sales office • Search and find local distribution partners 	<ul style="list-style-type: none"> • Lack of skill to build relationship with Chinese partners • Lack of brand image to attract Chinese talents
BEE	<ul style="list-style-type: none"> • Follow its large global customers and seek market opportunities 	<ul style="list-style-type: none"> • Establish a joint venture 	<ul style="list-style-type: none"> • Lack of skill to build relationship with Chinese partners • Lack local market knowledge
VET	<ul style="list-style-type: none"> • Seek low-cost resources 	<ul style="list-style-type: none"> • Establish a sourcing office • Search and find local distribution partners 	<ul style="list-style-type: none"> • Lack of skill to build relationship with Chinese partners • Lack local market knowledge
LIG	<ul style="list-style-type: none"> • Seek low-cost resources 	<ul style="list-style-type: none"> • Establish a production factory • Search and find local distribution partners 	<ul style="list-style-type: none"> • Lack of skill to build relationship with Chinese partners • Lack of local market knowledge

Why do MMNEs tend to follow a replication strategy before developing a new business model for mid-end markets? The first reason is that a replication strategy can reduce their operational risks. Opportunities are simultaneous with risk. Although there are more business opportunities in emerging markets than in their home country, entering into a completely different market from their old market means high risk. Owing to limited international management experience, people and the scarcity of resources, replicating their old business model in the first step was one viable strategy by which they could learn from local customers and partners and get insights for BMI in the future.

The second reason is that the managers at HQ have confidence in their prior business model. I found that some managers from developed markets had 'natural self-confidence' when they moved

to developing markets that influenced their decision making. This kind of ‘psychological advantage’ makes them believe that their experience learned from developed markets will be effective in emerging countries. In this cognitive model, some managers refused to change anything and thus considered a replication strategy as their first choice.

The third reason is related to MMNE’s prior processes and routines. Mature companies have developed a series of processes, rules and routines which were effective in their home markets. These sophisticated processes, rules and routines limit the innovation to some extent. If managers are not facing a real challenge, they have no incentive to change these sophisticated processes and routines.

Overall, the replication step is to penetrate the Chinese premium market by selling high-end products to global Western or large Chinese international companies. These global customers have the same needs for products and services as they have in other Western markets, and therefore the MMNEs are able to service these high-end customers through their existing business model. The main objective in this phase is to build a platform and beachhead from which the company can further explore the new business model for the mid-end market. A replication strategy can bring short-term success for the MMNEs in the high-end market; however, if they want to enter into the mid-end market, they must change their prior business model.

5.5 The Phase of BMI Proper: A Four-Stage Micro-Level Process Model

Comparing the cases that had completed their BMI at the subsidiary level with the cases that had not completed their BMI, I identified four stages: (1) *exploring* (related to the development of novel value proposition); (2) *experimenting* (related to the development of product innovation); (3) *constructing* (related to the development of novel revenue architecture), and (4) *consolidating* (related to the development of novel cost architecture). It is evident that MMNEs from Denmark can successfully enter the Chinese mid-end market via the BMI achieved through the above four stages.

5.5.1 Stage 1: Exploring Novel Value Proposition for New Customers in the Mid-End Market

When MMNEs in the replication phase established the high-end business and reached the company's main customers in this segment, they were ready to make the next and more challenging phase of moving down to the mid-end market. Customers in the Chinese mid-end market are different from those in its high-end market. Mid-end market customers have other preferences and are primarily attracted to affordable products of good enough quality and with a fast delivery. Therefore, replicating the high-end business model directly to the mid-end market will not work, as the high-end products are too expensive and irrelevant for the price sensitive customers in the mid-end market. There are three main courses and steps in this phase, such as understanding the Chinese mid-end market, defining the right niche segments and identifying the novel value proposition.

5.5.1.1 Three Major Steps to Exploring Novel Value Proposition

Understand the Chinese Mid-End Market. China can be a difficult country in which to do business because the business and regulatory environments are quite different from Denmark, and while the total population is huge, income levels vary considerably. It is important to take the time to research and understand the Chinese market before deciding how to design a new business model.

The six MMNEs in the SfG program saw the mid-end market segment as a potential future source of huge growth and profit because, in China, many industries grow much faster in the mid-end market than in the high-end market. They expected the mid-end segment to become a bigger market in China than the high-end segment.

From cultural, administrative, geographic and economic perspectives, the distance between China and Western markets is wide. According to Ghemawat (2011), managers from Western countries tend to underestimate the impact of distance and differences between countries, and they therefore make predictable mistakes, such as under-adapting their products and services to the new market and underestimating the time and resources required to penetrate this market. Therefore, Danish MMNEs must first, and most importantly, understand the Chinese mid-end market before developing their new business model. Table 5.3 shows the differences between the developed Western markets and the emerging Chinese market.

Table 5.3 Differences between Advanced Markets and the Chinese Market

Western Advanced Market	Emerging Chinese Market
• High-end/premium markets	• Low-end and mid-end markets
• Differentiation through brand, performance, service in stable markets	• Cost and suitability in a dynamic and rapidly changing market
• Relatively stable industry structure with known competitive positioning	• Fluid industry structure with many new entrants and changing strategies
• Incumbents defending leadership position	• New latecomer challengers aspiring to leadership
• Strong IPR regimes	• Weak IPR regimes
• Innovating for advanced lead users	• Innovating for cost and suitability
• Diffusion down from advanced to mid-end market	• Chinese players moving up from low-end to mid-end market
• Well known competitors	• Unfamiliar, diverse and disruptive challenges
• Sophisticated manufacturing and innovation ecosystems	• Low-cost manufacturing base and emerging innovation ecosystem

Source: Universe Foundation

A good approach for achieving customer understanding in China is immersion, which means involving MMNEs with customers or companies in the value chain to understand them better. For example, PUM and FAB understood their customers by visiting their customers and partners in their value chain. As one manager from FAB said, ‘Customer visits are very important and you should never miss a chance to visit a customer, since you can pick up so much information that cannot be found anywhere else’.

Define the Niche Market Segments. Danish MMNEs are always overwhelmed by the complexity and inaccessibility of Chinese markets because of their vast size. China has 56 different ethnic groups who speak 292 distinct languages. Several Chinese provinces are more populous than most European countries. Using a clustering approach, McKinsey and Company has divided the Chinese market into more than 20 urban clusters, some of which are economically larger than entire European countries (see Figure of the Appendix 1).

Atsmon, Child, Dobbs and Narasimhan (2012) argued that cluster-based strategies are far more effective than attempts to achieve blanket coverage of an entire country or region or to chase growth in scattered individual cities. By running operations through a common management hub and pursuing a strategy of gradual, cluster-by-cluster expansion, companies can gain scale efficiencies

in all aspects of their operations, including marketing, logistics, supply chain management and distribution. For all but a handful of high-end product and service categories, the emphasis should be on ‘going deep’ before ‘going wide’.

During this study, I also found that a fine-grained look is demanded. No Danish MMNEs can handle China as one market because it is far too big. A good starting point for MMNEs is to accept that China is not one market; therefore, a good strategy is to seek out opportunities and define the niche segments that are right for the MMNEs’ capability, resources and advantages.

By segmentation of a market, we mean dividing the customers into homogenous groups with similar demands to target these better. Danish B2B companies use a number of segmentation criteria to zoom in on target markets, as shown in Table 5.4.

Table 5.4 Example of Macro-Market Segmentation

Segmentation criteria	Details
Price	<i>High-, mid- and low-end market.</i> This segmentation is based upon price level.
Nature of market	<i>Private or government market.</i> The behaviour of private vs. government customers can be quite different.
Province	<i>33 provincial/regional/city markets.</i> Provinces can be as big and different as countries in Europe and can be targeted one at a time.
Tier cities	<i>Tier 1–5 cities.</i> Economic development in China is linked to urbanisation; therefore, most companies start out targeting tier one cities.
Climate	<i>Five temperature zones.</i> China spans different climatic zones and weather conditions, some products need modifications to fit local conditions.

Specify Novel Value Proposition. Value proposition is a catalyst for a customer focused innovation. It describes a customer's problem, the solution to it and the value from the customer's perspective. Additionally, it defines the way organisations work by focusing their activities on best serving their customers while doing so profitably (Lindicˇ, Marques da Silva, 2011; Chesbrough, Rosenbloom, 2002; Barnes et al., 2009).

Identifying and creating a novel value proposition is a key part of BMI. Different business models are based on a differentiated customer value proposition. Developing a value proposition is based on a review and analysis of the benefits, costs and value that an organisation can deliver to its customers, prospective customers and other constituent groups within and outside the organisation.

MMNEs coming from Denmark with a long and successful history of serving high- and mid-end market customers might intuitively take for granted that they also know the true needs and wants of the Chinese customers, even though they can observe obvious cultural differences. Based on this research, we found some differences in the demand between Chinese and Western mid-end market customers.

Chinese customers generally expect low prices, speedy delivery, easy accessibility and satisfactory product reliability. Product performance and the technical sophistication of the product are less important. Service, durability and warranty are not expected. Products are used until they break down, then a do-it-yourself-repair is often tried or the product is exchanged.

The main objective of the this phase is not completely to change the old business model, but to explore new opportunities in the mid-end market, develop new customers, learn from local partners and identify novel value proposition. At this stage, two main barriers rooted in culture and language often make it difficult for a Danish MMNEs to get reliable information on markets and customers.

5.5.1.2 Two Major Barriers to Exploring Novel Value Proposition

It is Difficult to get Information about Industrial Markets. The ability to gather, store, access and analyse data is a key factor for designing a new business model. Danish companies rely on macro data for market decisions; they are used to having quite good information on market size

and competitor size in their home country. In China, some market reports can give firms insights on markets driven by central or local governments, for instance, relating to developing the infrastructure in China.

However, information about industrial markets is much more difficult to obtain. Market surveys are generally not very well developed and their results are often questionable. As one manager said, ‘...for us, it is very difficult to get information about market segments like the mid-end market. Competitors’ information from annual accounts is not readily available, especially not from small and medium sized companies in China’.

Lack of Reliable Insights from Customers. One of the characteristics of Chinese industrial markets is the long chain from manufacturer to product user. Most Danish MMNEs do not sell products directly to end customers and instead rely on their distributors to sell their products. Therefore, many MMNEs lack reliable information and insights from their end customers because they do not have the chance to meet them. As one informant said,

‘We could not understand why the sales of our competitively priced mid-end market product were so low. After one year, we found out that our price after having passed through several distributors was actually sold as a high-end product, with a big profit for the last distributors’.

Overall, in this phase, on the one hand, the MMNEs used and adapted their current business models to provide products and services to the customers in the high-end market. On the other hand, they began to explore new opportunities and identify new customers in the mid-end market. The main courses of action in this phase are to understand the Chinese mid-end market, define niche segments and identify novel value propositions. These activities are very important for MMNEs to develop suitable solutions for Chinese customers in the next stage.

5.5.2 Stage 2: Experimenting with Suitable Products for the Mid-End Market

To become relevant in the mid-end market, the Danish MMNEs must find ways of developing suitable products. Suitable product refers to offering a product or service that is appropriate for its purpose and at a price that is affordable to the emerging market customers. As customers in the

Chinese mid-end market are very price sensitive, a suitable product for the mid-end market segment is therefore about localised features and cost innovation based on strong customer insights. There are two main courses for developing a suitable solution.

5.5.2.1 Two Major Steps to Product Innovation

Adapt Products to New Customers but Retain the Core. Changing a business model is a big challenge for MMNEs because they lack the resources and capability for radical innovation.

MMNEs cannot risk investing in a radically different solution. Instead, they follow a low investment and low risk strategy, where they quickly adapt existing solutions.

For MMNEs, developing a suitable product is not about radical innovation starting from scratch because the resources for following that path are simply not available. MMNEs first take a starting point of an existing product that they quickly adjust or adapt to the mid-end market need. As one team member at PUM said, *‘The adjusting approach is safe and less risky. In this process, we can use our existing knowledge and competences. We also can learn from the process’*.

The collected data shows that MMNEs tended to use an incremental approach for developing new products to expand into the mid-end market. Table 5.5 shows the companies’ adaptation of a product.

Table 5.5 Adaptation of Products

Company	Adaptation of product
PUM	Phased out pump from EU Localised pump for the Chinese mid-end market through local value chain. Local sourcing of expensive parts like motor, bearings and sealing. Minor changes in design and specification. Reduced cost by 20–30%, lower performance and application range.
LIG	New entry-level products. Partnership with local OEM manufacturer who produces similar low-cost products for competitors. Tweaked some specifications in the product from

	OEM to improve performance to a level acceptable to the brand.
BEE	Transfer existing EU product Local sourcing of all expensive parts, local assembly and testing, minor design changes. Design changes of critical element. Cost reduction target 50%.
VET	Adapt existing global product Change of functionality from internet data transfer to mobile data transfer, to make it relevant in rural areas. Adapt to local need with fewer functions and limited application range, to improve ease of use. Local manufacturing reduced cost 20% and time to market by 50%.

I argue that it is important that the MMNEs do not compromise product quality in terms of reliability when they adapt their product. Reliability is a core quality by which the companies have an advantage and can differentiate themselves from the local competitors. Because of their long experience, the MMNEs know how to manage and control critical product parameters and deliver according to specification.

Create Novel Products for Customers. The Chinese mid-end market, which is very different from the European high-end and mid-end markets, is very competitive, fast changing and volatile. It requires major changes to the MMNE's current business model. If adapting does not work, the MMNEs have to create and develop new products that are suitable for the local needs, with features that are different from the companies' existing offering.

Product development is a complex process that requires a concerted effort of managing a new product project through the various stages of development. In this complex process, product developers and engineers should work closely with the company's customers to define the scope, usability and functional requirements of the new product.

For example, FAB has developed its new low-price products within less than one year for the mid-end market featuring less colours (variants), larger MOQ (batches), reduced specifications and

a shorter lifetime guarantee. All the product features are different from its products for high-end markets. The developer of new product from FAB said,

'...our good experience is to work closely with customers, not develop new products only in your lab. Customers know what they really want. At the first stage of developing a new product, we invited engineers from HQ to visit the customer with our local team. Our strategy of product development is customer-driven, not technology-driven.'

Developing new products takes time and resources. Some firms have taken different strategies in developing new products. For example, NIA got new low-low-cost products for mid-end markets by acquiring one Chinese local company. As one manager from NIA said, 'It's possible to speed things up and trade money for time, so we tried to shorten the time by acquiring'.

Based on the collected data, I have identified three main **barriers** MMNEs face when designing a suitable solution for the mid-end market: (1) fear of damaging the brand image, (2) fear of cannibalising premium products, and (3) lack of local R&D capability.

5.5.2.2 Three Major Barriers to Product Innovation

Fear of Damaging Brand Image. MMNEs with an established position in a high-end market have spent a long time and many resources building premium brands, which they naturally want to protect from devaluation. When entering the mid-end market with offerings that have lower specification and prices, MMNEs are normally concerned with devaluing the high-end brand, since customers may lower their overall perception of the brand. On the other hand, MMNEs want to leverage their established high-end brand equity to attract customers' interests and somewhat higher prices in the mid-end market business. As one manager at FAB said,

'Our company has a good brand image in Chinese high-end markets. We are cautious not to change the quality perception of our products too much, as this is what has built our brand image. So, it is a big challenge for us because we have to balance high quality and low price. We are thinking about whether we can use the second brand for products for the mid-end market.'

Fear of Cannibalising Top-End Premium Products. MMNEs with an established brand position in the high-end markets must consider how to avoid cannibalisation if they start offering lower priced solutions in the mid-end market. Customers, who would normally buy a high-end offering, may downgrade if they become aware of the alternative mid-range offering. As the high-end products are more profitable than the mid-end market products, in general, this downgrading could be critical for the company.

If cannibalisation occurs, it may be an indication that there is a misfit between the high-end offering and the market need. A misfit is rarely sustainable, since customers will eventually find alternative solutions to meet their needs with a better fit between benefits and costs. Without a very clear differentiation between high-end and mid-end market products, cannibalisation will eventually occur. Therefore, the challenge for an MMNE is to understand and decide what parts of the value proposition and product to change in order to ensure that the mid-end market offer is correctly in the mind of the customer.

In order to overcome this challenge, some successful firms took a dual brand strategy. For example, FOO developed new brand for the Chinese mid-end market. The new brand products have a shorter lifetime and do not have the same high level of technology as the old brand which targets high-end markets, but they are still good quality products. As one manager from FOO said,

‘The objective of the second brand was to establish a position in the China mid-end market by reducing the costs. Chinese customers are, in general, used to small problems with products, and will not complain the same way as Western customers. To reduce the cost further, there is no service for the new brand products – only hotline help’.

The two brands at FOO are sold through separate channels based on distributors. Initially FOO was afraid of cannibalising the high-end brand, but it has not been a problem.

Lack of Local R&D Capability. The local Chinese mid-end market is characterised by low costs, good enough quality, acceptable performance and basic functionality. Developing these types

of products and solutions is a completely different task to developing products with leading performance for the high-end segment, where the price is less of an issue.

Most MMNEs have limited R&D resources, and these are often located at HQs. Using and sharing the same engineers and team to develop for both the high-end and mid-end market often results in products that are over-engineered and too expensive. High-end products are developed through a very disciplined and structured process, following standards and extensive test procedures to ensure high reliability and no failure under a wide variety of circumstances. This process is often too slow and expensive for a mid-end market business that has to be quite responsive to customer needs, as it is competing in a very price sensitive fast moving market, where customers are willing to take more risks to gain a competitive advantage.

For example, MMNEs in the SfG program are at present in a phase where they use the same R&D resources for both segments. EAR, LIG and BEE have tried to use their own in-house resources at HQ to develop low-cost solutions for the mid-end market, but so far they have not succeeded in bringing the cost down to an acceptable level. FAB and PUM have successfully launched their first mid-end market product and succeeded with their development by using a localised development team.

5.5.3 Stage 3: Constructing the Local Value Chain for Revenue Architecture

5.5.3.1 The Major Step to Construct the Local Value Chain

Innovate Marketing and Distribution Channel Design. Distribution is a necessary element in all business models, since a company has to reach its customer in some way or another. Good enough products and services might require different sales channels than a company's traditional products (Ryans, 2009). For MMNEs, the main course of action in the constructing phase is to innovate sales and distribution channels to get a distribution cost advantage, which is a comparative advantage that one company has over another, because of its ability to deliver goods or services more quickly and less expensively.

Distribution in China differs from most other markets because the Chinese market is very diverse and spans a very big area, geographically. The geographical distances within China are larger than the distances within Europe. Therefore, China should be considered a multitude of markets and not just one market. The distribution chain typically becomes long in China, with many intermediaries between the company and the end-customer. Naturally, this influences the end price to the customer if each intermediary adds a mark-up – and it is particularly problematic if the intermediary does not add anything of value to the end customer. A long distribution channel is also problematic when it comes to acquiring market insight.

In order to reduce the cost of long distribution, some MMNEs have built a direct sales force for the mid-end market segment and they leave the physical handling of the goods to the distributor. For instance, PUM and FAB have built sales teams for their new products for middle-markets. EAR is in the process of setting up a special distribution channel for each market. The benefits of direct sales are to reduce their distribution costs and interact more closely with customers.

Another approach to reducing distribution costs is to transfer knowledge to the distributor to improve their efficiency. This approach calls for more efficient training than using one-to-one lessons based on oral knowledge transfer. Some of the MMNEs in the SfG project are experimenting with video-based training instructions on how to use their products in the field, and they are developing Chinese instruction manuals with pictures. Another company has developed a special training academy and set-up a call operated by a third party.

5.5.3.2 The Major Barrier to Construct the Local Value Chain

Channel Conflicts When Serving Both High- and Mid-End Markets. When MMNEs target both a high- and mid-end market in China, they face a big challenge in setting up special distribution channels or an integrated channel for both markets.

Special distribution channels can present challenges to a company. As one sales director from PUM said, ‘We set up two special distribution channels for two different markets. But sales people consider it more prestigious to sell high-end products or easier to sell to existing customers, so it is

not attractive to work in the mid-market channel'. Another challenge is that special distribution puzzles customers who may find it more difficult to do business with the company because they do not have one point of entry and they may be shifted around different salespersons.

If the company integrates the special channel to one channel for both high- and mid-end markets, they also face big challenges. First, the sales people need to acquire the necessary knowledge about the new products and sales because the selling approach differs in the two markets, typically with total value-based selling in the high-end market and a value-for-money focus in the mid-end market. Second, the sales people do not have extensive relations to the potential customers. Third, the most common concern in an integrated distribution channel is cannibalisation between the two products lines or brands, because customers are tempted to switch to the cheaper product.

5.5.4 Stage 4: Consolidating the Local Value Chain for Cost Architecture

A business model is fundamentally concerned with creating value and capturing returns from that value (Shafer, Smith, and Linder, 2005). Neither value creation nor value capture occurs in a vacuum, however. As Hamel (2000) argued, both occur within a value network, which can include suppliers, partners, distribution channels and coalitions that extend the company's own resources. Teece (2007) suggested that designing a good business model is in part 'art'. The chances of success are greater if enterprises analyse the value chain thoroughly to understand just how to deliver what the customers want in a cost-effective and timely fashion.

Danish MMNEs designing their new business model for the Chinese mid-end market often need to lower their prices substantially. Local Chinese customers are very price sensitive since they operate with a lower cash-flow and focus intensively on making money. The price is also forced down by strong competition from local Chinese companies and other foreign companies in China. Thus, for most Danish MMNEs, the price point should be lowered from 20% to 75% when they move from a high-end to a mid-end market.

Price value is very much focused on providing good enough solutions and offering these standard products and services at a very attractive price. This is the core value proposition of the

low-cost competitors (Ryans, 2009). China also offers several unique opportunities for lowering costs. The effective strategy of cost innovation is to optimise local value chain to meet the lower price point of the mid-end market to keep a margin. Porter's (Porter and Michael, 1985) value chain focuses on systems and how inputs are changed into the outputs purchased by consumers. Using this viewpoint, Porter and Michael (1985) described a chain of activities common to all businesses, and he divided them into primary and support activities. Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. In this section, I focus on primary activities and identify two courses of action that MMNEs need to consolidate the local value chain for cost architecture.

5.5.4.1 Two Major Steps to Consolidate the Local Value Chain

Improve the Efficiency of Manufacturing Process. Cost innovation on manufacturing is a powerful competitive weapon with the ability to target mid-end markets. When MMNEs move down to the mid-end market, they need to build the ability to produce products at a lower cost. For example, PUM has moved their production lines to China from Denmark and built two factories in China. The R&D director of PUM said, 'Compared to Denmark, China's labour force still has a very significant cost advantage. By using this advantage, we can reduce our manufacturing costs'. The other MMNEs in this project also took approaches to improve the efficiency of the manufacturing process. For instance, EAR has begun to assemble products in China.

Sourcing in China is the Most Common Way to Lower Costs. Sourcing local parts at local costs is an effective approach to getting a cost advantage. For example, PUM and FAB have greatly reduced their production costs by purchasing local parts or raw materials. Of course, simple outsourcing based upon specification and control is insufficient. A better way is to bring MMNEs' unique competences into a sourcing partnership and work closely with their Chinese partners to bring down the costs.

According to Zeng and Williamson (2007), Chinese competitors offer increased variety and customisation at the same rock-bottom prices as standardised products by using China's labour cost

advantage in novel ways to increase their process flexibility, without undermining efficiency, and via re-combinative innovation. In order to obtain a comparative advantage, an effective strategy for Danish MMNEs to take is to leverage China's labour cost advantage. However, we found that some MMNEs postponed the later steps of building up R&D or production lines, or closed their factories, primarily due to the fear of losing intellectual property rights (IPR). Many Danish companies rightfully consider their innovation ability as the final bulwark against the fierce competition from local Chinese companies and their frightening ability to copy Western products. However, if the purpose is to lower costs, manufacturing products in China that have been developed and specified in Denmark is an approach with a number of potential shortcomings. This is because if the Chinese manufacturing capabilities are not sufficiently known to the Danish R&D department, it is difficult to reduce the variable cost by designing for manufacturing.

5.5.4.2 Two Major Barriers to Consolidate the Local Value Chain

Low-Risk Approach to High-Risk Market. To optimise the local chain for cost advantage, MMNEs need to invest in China. However, for all MMNEs, the resources are scarce, and prioritising where to put their investment is critical. Most of the companies in our study perceive the Chinese market as both highly attractive, due to the future growth opportunities, but also as very risky.

The response from most of companies to this is a low risk/low gain proposition. Their actual actions indicate that their primary focus is to maintain their existing high-end position in the developed markets, where they currently make the main part of their profits and revenue. Consequently, most of their resources and attention are still invested in the developed markets, despite the likely low future growth. Obviously, this is the opposite of what would be expected if the company were truly special to creating new growth for the future.

A consequence of the low risk approach is that the investment is seldom released before results are demonstrated. This is problematic, because without investment, it is very difficult to get results, and thus, progress and focus naturally drop. In the short-term perspective, succeeding in China is

typically not seen as a burning platform for the company, and the mind-set at HQ is that ‘China is the future, but not tomorrow’. Under this mind-set, MMNEs lack a suitable and long-term strategy for cooperating with local partners.

Lack of Freedom for Cooperation with Local Partners. Freedom for local subsidiaries’ employees is crucial to pursue rapidly changing local opportunities and build new solutions with local engineers, suppliers and distributors. However, some managers back at the HQ in Denmark want all its subsidiaries to follow a consistent global policy on issues such as quality, branding, service and development.

The control of HQ limits the freedom of subsidiaries to build good relationships with local partners. In China, developing good relationships is very important for long-term cooperation with local partners. Looking at the personal connection can also be a tremendous asset. However, Chinese relationships are very different from Western relationships. Successful relationships depend on responding and adapting quickly based on interaction with local partners.

Local partners have local knowledge, which means they are well-placed to appreciate and satisfy local preferences – this is particularly relevant where specialised products and services are concerned. Based on our study, this kind of local knowledge is trending with greater interest in supporting a company’s cost innovation strategy. Good relationships are beneficial for getting local knowledge from local partners.

5.6 The Phase of Post-BMI: Growing by Building Agile Organisation

In a dynamic and fast-changing business environment such as Chinese mid-end markets, the ability to innovate faster and in new ways is critical to growth by implementing a new business model with more flexibility and adaptability. Therefore, improving a company’s agility is the core aspect of implementing a new business model. Based on our research, there are main activities which MMNEs need to undertake to build an agile organisation.

5.6.1 Four Major Steps to Build an Agile Organisation

5.6.1.1 Motivate and Align Employees to the New Business Model

Employees with the right skills, talent and knowledge have the biggest impact on implementing the business model because they are the ones who improve the processes and run the projects, programs and initiatives required by the new model. To enhance a rapid response to the market and capture the full value of operating a new business model, MMNEs' executives must align and motivate employees towards the new business model. Employees at different levels must know and understand the new business model if they are to successfully link their day-to-day work with the new business model and work with more flexibility and adaptability.

Some projects that MMNEs can undertake to motivate and align employees with the new business model, which, for example, some MMNEs such as PUM and FAB in the SfG project have undertaken, include formal communication programs, which helped employees understand the new strategy and model and motivated them to achieve it. They also conducted some training and career development programs, which helped employees to gain the competencies they needed for successful strategy execution.

In order to motivate employees to implement the new business model, MMNEs also need a highly efficient HR organisation and well-developed, flexible talent management processes that can support employees across the entire employee lifecycle – from recruiting to development to performance management and rewards. These practices and processes enable and support the development and maintenance of high-performance employees who have the right skills and capabilities but are also motivated and engaged, who understand their role in achieving the outcomes and objectives of the new business model, and who feel recognised and rewarded for the contributions they make (Cheese, Silverstone, and Smith, 2009).

5.6.1.2 Renew and Redesign Processes for the New Business Model

The new business model takes place at the subsidiary level. However, international MMNEs typically consist of multiple subsidiaries, operating units and functional units. Most subsidiaries of MMNEs involved in the SfG project do not own the full value chain in China. PUM, FAB, EAR and VIT, for example, retain their product development functions at their HQs. Product developers

at the subsidiaries need to comply with the processes and rules which were established by HQ. 'Some processes are very rigid'. One informant from EAR said, 'These processes are not suitable for the Chinese market. We must develop the capabilities in place to meet the rapidly changing market needs, in response to competitor's actions'.

These rigid processes have limited the ability of MMNEs to improve their dynamic capability for implementing the new business model. They need to renew or redesign processes to create synergies and dynamic capabilities. As one manager from FAB said, 'Without flexible and excellent operational and governance processes, a new business model cannot be implemented'.

The strategy of FAB is to renew its old processes and improve its agility and dynamic capabilities. To sustain dynamic capabilities, decentralisation must be favoured because it brings top management at HQ closer to new technologies, the customer and the market. Of course, design of the agile organisation seeks the middle ground between centralised and decentralised structures. The bureaucracy that results from an overly centralised model can stifle innovation and result in delayed market responsiveness. On the other hand, an overly decentralised model can result in inconsistencies in response, slower product development, organisational redundancies and excessive costs (Cheese, Silverstone, and Smith, 2009).

5.6.1.3 Create Collaborative and Adaptive Culture at HQ and the Subsidiary

According to Accenture research, the organisational culture, in many ways, looms as the biggest challenge to creating an agile company which actively works to break down silos that might impede the ability of different parts of the organisation to adapt and move in sync toward common goals (Cheese, Silverstone, and Smith, 2009).

It is crucial that the HQ and the subsidiaries have a common goal for MMNEs to implement a new business model and overcome the structural deficiencies and organisational silos that prevent the ready flow of information around different departments of the HQ and the subsidiaries. However, without attention to effective collaboration, the goals and results of the organisation fall

short. As one manager from FAB subsidiary said, ‘...if you want to implement a new business model, the most important thing is to build an effective collaboration with HQ’.

FAB is a good case in creating collaborative culture. It has built some processes and projects to strengthen the communication and connection between the decision makers both at the HQ and the subsidiaries. Its top executives are creating collaborative culture as a priority to focus on improving the collaboration of the cross units. For example, the CEO visited China four or five times in one year to communicate with the local team.

The successful MMNEs have also realised the importance of an adaptive culture in which companies foster a condition of continuous renewal in their everyday operation and accept change as constant. As the R&D director at PUM said, ‘The key element of the Chinese mid-end market is changing faster. You have to change quickly too. In fact, how to adapt our products to fit customers’ needs is a big challenge. We are conducting some projects which can improve PUM’s agility’.

5.6.1.4 Scale Up the New Business Model

If the new business model works well and is adapted to the local conditions, the companies will perform activities to scale up their new business models. There are two approaches for scaling up the business model. The first approach is to scale up new business in the Chinese mid-end market. For example, after the experimentation phase of the new business model by cooperating with one big Chinese customer, PUM has identified new customers whose needs are familiar with it and who have accelerated the pace of scaling up new business in the Chinese mid-end market.

The second approach for scaling up the business model is to identify new mid-end market customers in other countries with emerging economies or developed countries, which have the same need as customers in the Chinese mid-end market. For example, ALA has started to roll out its mid-end market series in countries where it can see a competitive advantage, such as Spain, Italy, Mexico, Brazil and India, and whose markets are growing rapidly. FAB has also identified new customers and made a plan for scaling up its new business model in the USA.

Scaling up is costly and takes time and resources. In general, for scaling up a new business model, the successful firms followed the ‘concentration strategy’, meaning that they focused on a controlled growth to ensure that the whole organisation (resources, competencies, system etc.) was developed at the same pace and could thus support the growth. Such controlled growth can be achieved by focusing on either one specific customer segment or one specific region at a time, before moving onto the next segment. As one manager said, ‘It is easy to become greedy in a huge and growing market like the Chinese, we need to be more patient’.

5.6.2 Two Major Barriers to Building an Agile Organisation

There are two main barriers in the growth stage.

5.6.2.1 Lacking Good Skills to Leverage Human Capital Advantage

According to Kaplan and Norton (2004), human capital is the skills, talent and knowledge that a company’s employees possess. Unlike financial and physical assets, human capital as one kind of intangible asset is hard for competitors to imitate, which makes it a powerful resource of sustainable competitive advantage.

One challenge facing the Danish MMNE’s is how to leverage the human capital advantage for their business model innovation in China. For Danish managers, motivating Chinese employees requires a change in style. For example, hierarchies in Chinese culture are steeper and less flexible, and the roles that employees expect to fill in the organisation are different. Many Western employees will often be motivated by intrinsic factors such as the pleasure of being creative or in developing skills and insight; however, motivation for employees in China is generally more extrinsic. Salary and status are very important drivers.

Because of the big difference in HR policies between Denmark and China, most Danish managers lack the skills to motivate Chinese employees and leverage human capital advantage. As one Chinese general manager said, ‘Even a Western person who has lived in China for decades and is considered a China expert is only floating on the surface. They will not get deep down close to

the Chinese employees in the same way a native Chinese can. The employees will say yes, but they mean no’.

5.6.2.2 Lack of a Suitable Strategy and Process

The MMNEs we have studied are all old companies that have been successful over decades doing what they are good at, perfecting their business model and way of operating. They seem to have found a successful formula of how to do business in the high-end segments and developed markets in which they are used to knowing the right answers. Nevertheless, when entering a new and different market, such as the Chinese mid-end market, they need to learn how to ask all the right questions. This is extremely challenging as the ‘old’ mind-set and business model have a tendency to stick, thereby defocusing or blinding the companies to a new reality.

MMNEs trying to expand into the mid-end market are involved in an immense learning process, wherein they try to understand and decode how to operate and succeed. This is difficult and takes time. Unfortunately, companies often underestimate this process of learning, and many do not have the right set-up or systems to manage the change and uncertainty through constant experimentation. They lack a structured and systematic process that can guide them through a chaotic, uncertain and fast changing market.

5.7 Discussion and Conclusion

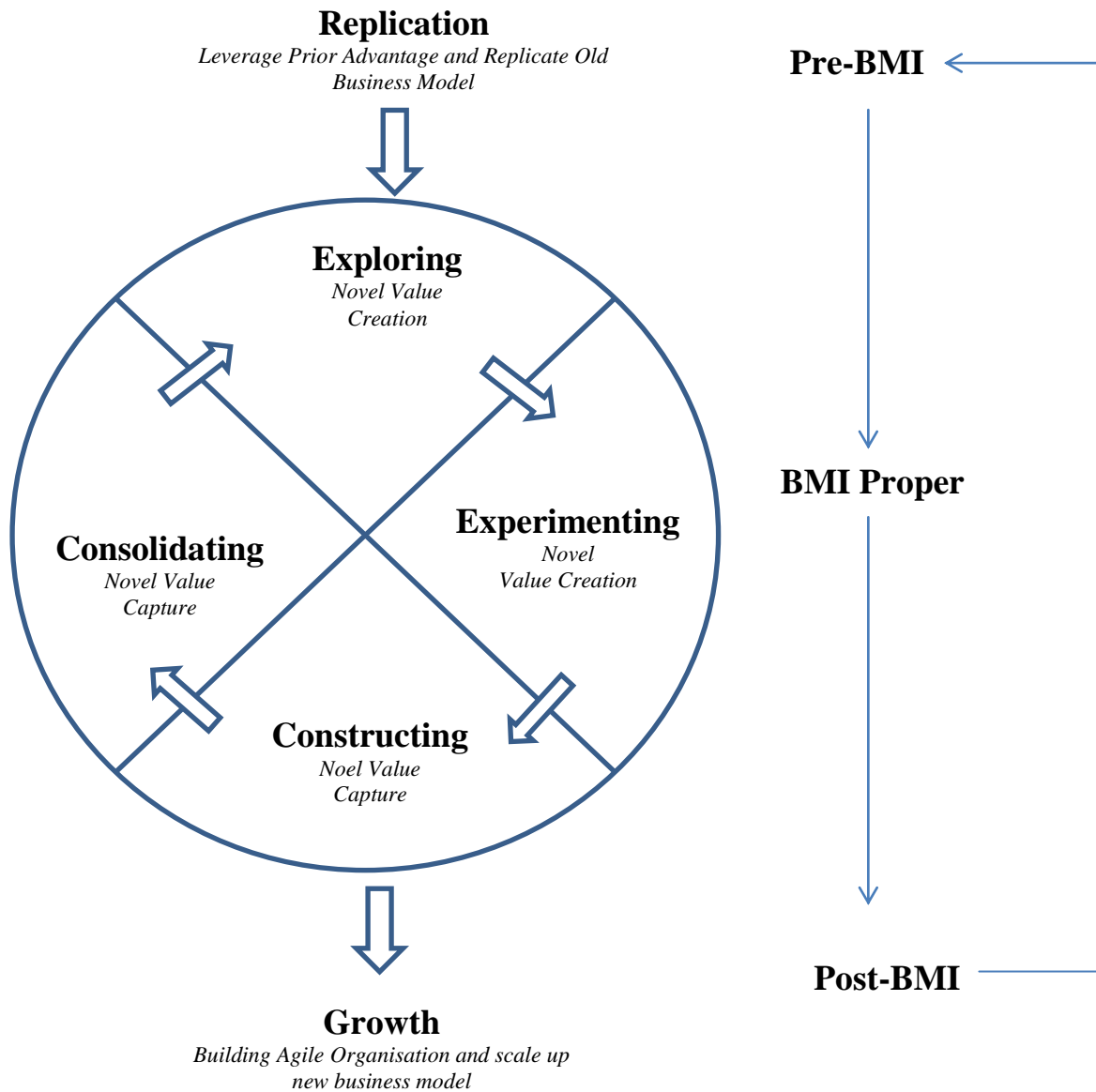
To develop an integrative process framework of BMI, I posit that any process framework should consist of two generic dimensions. First, it must have a temporal dimension, which typically takes the form of a sequential order of multiple phases or stages. Second, it must have a spatial dimension, which typically takes the form of multiple interdependent elements.

5.7.1 An Integrative Process Framework of BMI

In this research, by using a comparative and longitudinal case study method, I explored a temporal process system with both a *macro-level* process framework as a higher-order temporal system and a micro-level process model (Figure 5.1). For the macro-level process model, I followed the traditional system model comprising the three elements of input, system and output by

specifying three phases in the macro-level process model: pre-BMI, BMI proper and post-BMI phases. These are similar to the model of change with unfreezing, change and freezing as the three phases of change. For the micro-level process model of BMI proper, I explored four stages, i.e. exploring, experimenting, constructing and consolidating from the case evidence. For the multiple interdependent elements, I found that each phase and stage has three spatial factors, i.e. drivers, functions and effects, which are similar to the three elements of input, system and output in a traditional system model.

Figure 5.1 A Three-Phase Integrative Process Framework of BMI from Old to New



The Three-Phase Integrative Process Framework shows that an MMNE begins its business in the emerging markets by replicating its old business model. In the replication phase, the key objective of MMNEs, by leveraging their prior products or service and other advantages, is to build a platform and beachhead from which they can further develop a new business model for mid-end markets. After getting a foothold on the high-end market, MMNEs are ready to make the next and more challenging step to move down to the mid-end market. In the exploring stage, MMNEs focus

on three main activities such as understanding the Chinese mid-end market, defining the right niche segments and identifying the novel value proposition.

Using the customer's novel value proposition as a guide, MMNEs begin to develop suitable solutions to fit the customers' needs. In the experimenting stage, MMNEs, in general, take two steps for product development. First, the MMNEs take an adaptive strategy in which they take a starting point of an existing product that they quickly adjust or adapt to the mid-end market need. If adapting does not work, the MMNEs have to create and develop new products that are suitable for the local needs, with features that are different from the companies' existing offering. Creating and capturing value is the core of the business model, both of which occur within a value network (Hamel, 2000). In the constructing and consolidating stage, MMNEs configure their prior local value chain or value network to obtain cost advantage. The main activities are innovating marketing and distribution channel design, improving the efficiency of the manufacturing process and sourcing locally to lower costs. Finally, MMNEs implement their new business model with flexibility and adaptability by building an agile organisation. The main activities are to motivate and align employees with the new business model, renew and redesign processes for the new business model and create a collaborative and adaptive culture at the HQ and the subsidiary.

This micro-level process model of BMI proper with four stages captures the core of BMI. According to Zott and Amit (2010), a firm's business model is a system of interdependent activities that transcends the focal firm and spans its boundaries. They suggested that one set of parameters that activity system designers need to consider is designing elements with content, structure and governance that describe the architecture of an activity system. Activity system content refers to the selection of activities, i.e. those that are performed. Activity system structures describe how the activities are linked (e.g. the sequencing between them). Activity system governance refers to who performs the activities. All activities in this framework are related to the elements of BMI with content, structure and governance.

I also identified the barriers that the MMNEs faced in the four stages of the micro-level process.

Table 5.6 shows these activities and barriers. For example, in the exploring stage, the common barriers the MMNEs faced were difficulty obtaining information about industrial markets and the lack of reliable insights from customers.

Table 5.6 The Four-Stage Micro-Level Process Model of BMI

	Exploring	Experimenting	Constructing	Consolidating
Major Objectives	Novel Value Creation	Novel Value Creation	Novel Value Capture	Novel Value Capture
Major Steps	<ul style="list-style-type: none"> • Understand Chinese mid-end market • Define the right niche segments • Identify novel value proposition 	<ul style="list-style-type: none"> • Adapt products for new customers, but keep the core • Create new products for customers 	<ul style="list-style-type: none"> • Motivate and align employees • Renew and redesign processes • Create collaborative and adaptive culture • Scale up new business model 	<ul style="list-style-type: none"> • Improve the efficiency of the manufacturing process • Innovate sales and distribution channels
Primary Barriers	<ul style="list-style-type: none"> • Difficult to get information about industrial markets • Lack of reliable insights from customers 	<ul style="list-style-type: none"> • Fear of damaging the brand image • Fear of cannibalising premium products • Lack of local R&D capability 	<ul style="list-style-type: none"> • Lack good skill to leverage the human capital advantage • Lack of a suitable strategy and process 	<ul style="list-style-type: none"> • Low risk approach in a high risk market • Lack of freedom for cooperation with local partners

The barriers in Table 5.6 show that it is not easy for MMNEs to survive in an emerging market and get a foothold on exploring new markets. Owing to the big gap between developed markets and emerging markets, the MMNEs face barriers rooted in the country’s culture and language when seeking new opportunities. For them, it is difficult to access reliable information about markets and customers if they cannot understand the policies and roles of the emerging markets.

Low price is one key value proposition for customers in a mid-end market. In order to fit price-sensitive customers’ needs, MMNEs need to conduct some projects on cost innovation and develop suitable products with localised features. In the experimenting stage, MMNEs, in general, face barriers such as the fear of damaging the brand image, the fear of cannibalising premium products

and the lack of local R&D capability. Most Danish MMNEs feel the enormous pressure of price competition because the price is forced down by strong competition from local Chinese companies. In fact, the price point of MMNEs' products should be lowered from 20% to 75% when they move from the high- to mid-end market. To target this price goal, MMNEs have to optimise or even reconfigure their old value chain. These actions require a certain spirit of adventure. Unfortunately, some MMNEs are risk-averse, and thus take a low risk approach in a high risk market. At the same time, subsidiaries lack the freedom to cooperate with local partners. Agility is the core of implementing a new business model. In order to implement their new business model, MMNEs undertake activities for building an agile organisation. In the entire BMI process, MMNEs face some big common challenges, such as lacking good skills to leverage the human capital advantage and lacking a suitable strategy and process. However, overall, the MMNEs face different barriers at different stages. Some barriers are caused by external market factors, while others are rooted in the MMNEs' internal cultures, processes, routines and structures.

Designing a new business model at a subsidiary was viewed as a subsidiary initiative, which entails entrepreneurial and creation-oriented activities; it is a specific form of ISE. From either a strategic entrepreneurship or a power perspective, it can be expected that BMI, as one typical form of subsidiary initiative, will encounter significant barriers and resistance from the existing power bases within the corporation. Based on their research, Birkinshaw and Ridderstråle (1999) called the force that resists a subsidiary initiative the 'corporative immune system', which seeks to destroy initiatives.

5.7.2 A Learning Duality Perspective (learning-unlearning balance)

For all established firms, and MMNEs in particular, with a long corporate history, it is difficult to learn path-breaking knowledge in their host markets because the organizational memory might become a barrier to absorbing the new knowledge gained in international markets (Zahra et al., 2011: 324–325). In their research, Zahra et al found *that* unlearning can free up firms' organizational memory and, thus, create opportunities to explore new concepts, and can become a

precursor to the learning that drives successful transformation. Unlearning is defined as the suspension of existing knowledge, routines and assumptions for open-minded exploration (cf. Tsang & Zahra, 2008; Zahra et al., 2011). Specifically, unlearning is closely tied to innovative orientation (part of initiative-taking) and emergent creativity (part of improvising) because unlearning focuses on the creation of novel resources and routines, rather than reconfiguring old resources and routines. Thus, we frame unlearning as the strongest form of strategic entrepreneurship. This is similar to the strongest form or version of entrepreneurship, envisioned by Lachman and Shackle, for opportunity creation rather than simply for opportunity recognition via alertness for arbitrage, envisioned by Kirzner, and opportunity discovery via the recombination of existing elements for creative destruction, envisioned by Schumpeter (Alvaraz & Barney, 2010; Chiles et al., 2010; Li, 2013b). Relative to small firms, medium-sized firms tend to suffer more from organisational inertia or the lock-in effect in terms of the previously established routines and taken-for-granted assumptions, meaning *unlearning* is necessary (cf. Tsang & Zahra, 2008). Hence, the role of BMI (also that of dynamic capability) is much more salient and imperative to medium-sized firms than to small firms.

Despite its salience, unlearning alone is not enough for exploration because unlearning is a necessary antecedent to exploratory learning; therefore, unlearning and learning are both necessary as two elements of a balance. In this sense, the dynamic interplay between learning and unlearning is the major factor that shapes both dynamic capability and BMI. In particular, unlearning is more related to sensing capability for dynamic capability and value creation for BMI, while learning is more related to seizing capability for dynamic capability and value capture for BMI. With the balance between unlearning and learning, we can understand the inherent link between BMI and dynamic capability with their shared theme of strategic entrepreneurship, especially in the global context, thus ushering the emergence of a research stream on ISE. Hence, the required balance between unlearning and learning is made the most salient and imperative by the special context of cross-divide entry to a mid-end market by MMNEs. In sum, the integrated research stream of ISE

for MNEs in general and MMNEs in particular is one of the primary contributions of this dissertation. This contribution enriches the literature across the three fields of international business, strategic management and entrepreneurship as an integrated core.

Future research needs to focus on the further theoretical refinement and empirically test the process framework with dynamic capability and BMI in the global context of cross-divide entry as the core of ISE. Additionally, we must more firmly establish the integrative field of ISE. In particular, the balanced roles of unlearning and learning for dynamic capability and BMI are worthy topics for future research, especially their potential links with the aspiration and flexibility at the HQ level as well as the initiative-taking and improvising at the subsidiary level, all being key mechanisms of *emergence* for ISE (cf. Sawyer, 2000).

The main limitation of this research is that this paper only focuses on a single home country (i.e. Denmark) and a single host country (i.e. China) making it too narrow to compare multiple home countries and/or multiple host countries. Future research can consider two different design options. One option is to design a study with multiple home countries. The other option is to design a study with multiple host countries. These two options can provide a much richer context for theory-building.

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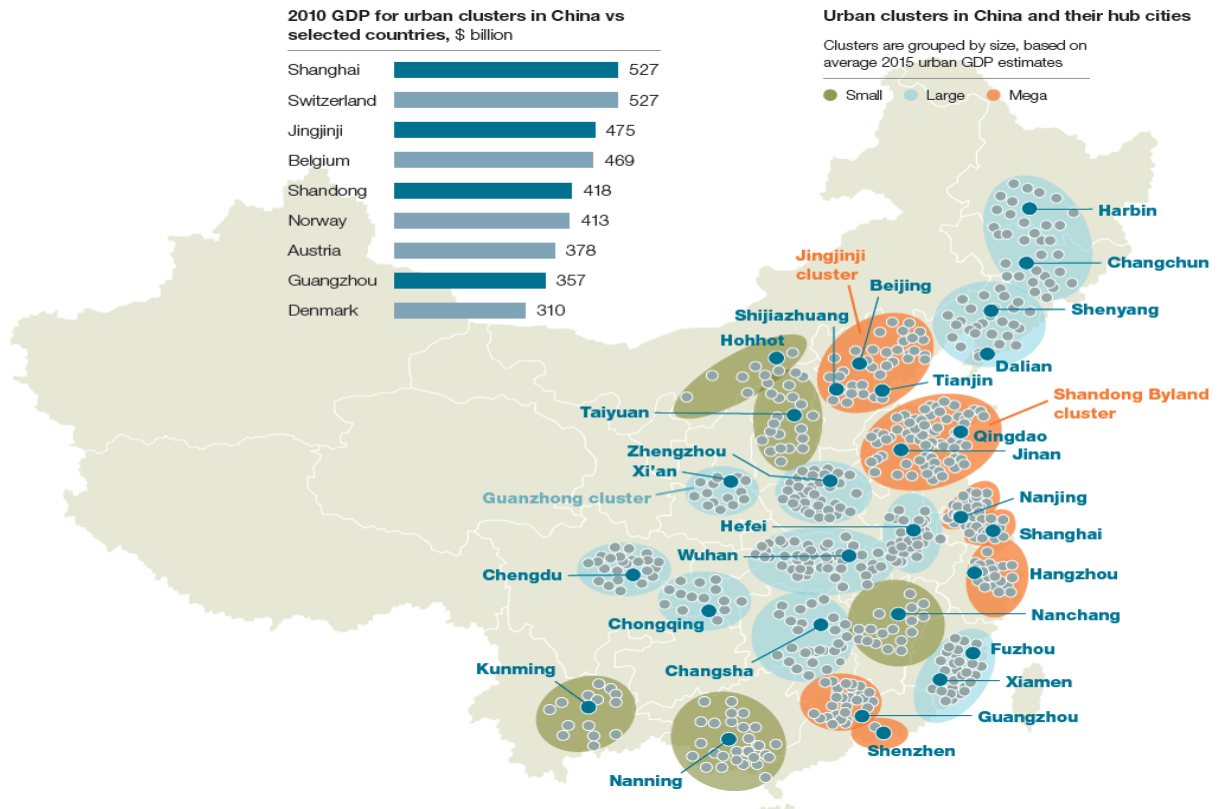
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Appendix 1. Urban Clusters of the Chinese Market



Source: McKinsey Quarterly, 2012

Chapter 6: Conclusion

In this final chapter of this dissertation, I first summarise the key findings of the three papers addressing the three research questions that have motivated this dissertation. Second, I discuss the major contributions of this dissertation and their salient implications for both research and practice. Finally, I cover the limitations of this dissertation and future research directions.

6.1 Key Findings of the Dissertation

In Chapter 1, I proposed the three major research questions of this PhD dissertation as below:

- *How do the headquarters of MMNEs enable business model innovation at the subsidiary level in the special context of cross-divide entry with a top-down venture for a mid-end market?*
- *How do the subsidiaries of MMNEs enable business model innovation at the subsidiary level in the special context of cross-divide entry with a top-down venture for a mid-end market?*
- *What is the process framework for business model innovation in the special context of cross-divide entry with a top-down venture for a mid-end market?*

The specific role of HQ in the process of innovation in general and BMI in particular at the subsidiary level is the central issue of the HQ-subsidiary relationship. This issue remains controversial with the debate over HQ's role for global innovation. For example, some scholars classify the role of HQ into 'entrepreneurial' (value creating) and 'administrative' (loss preventing) (e.g. Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006). However, it seems difficult for HQ to play both entrepreneurial (value-creating) and administrative (loss-preventing) roles at the same time. Other scholars identify two opposing perspectives: rationality and ignorance (Ciabuschi et al., 2011). The rationality perspective posits that the involvement of HQ in the innovation at the subsidiary level should match the extent of HQ's knowledge of the subsidiary's operating context. In contrast, the ignorance perspective assumes that HQ lacks the relevant knowledge so that HQ is likely to be 'groping in the dark' and is thus unable to be effective. Hence, the role of HQ is not clear for the business model innovation at the subsidiary level. The first research question aims to explore the enabling role of HQ in the process of BMI at the subsidiary level.

Further, the specific role of the subsidiary in the process of BMI at the subsidiary level is also a salient issue. Subsidiaries often engage in entrepreneurial activities independent of their given mandates from HQ, which is the theme of subsidiary initiative (Birkinshaw, 1997). The collaborative relationship between HQ and subsidiary are important for BMI, but the current literature on the HQ-subsidiary relationship often focuses on the negative effect in terms of the conflict between the HQ and the subsidiary, rather than their possible collaborative partnership (Paterson and Brock, 2002), which remains a controversial issue. The second research question aims to explore the enabling role of subsidiary in the process of BMI at the subsidiary level.

Taking a dynamic process perspective, developing or designing a new business model by an established firm is a long and complex process. Some scholars have argued that a business model takes shape through a process of experimentation, adaptation and learning (Demil and Lecocq, 2010; Hayashi, 2009; McGrath, 2010). However, few studies have focused on the process of BMI in the context of MMNEs. The third research question aims to explore the overall process of BMI at the subsidiary level with multiple stages in a full cycle.

To answer the above three questions, I adopted the method of a comparative and longitudinal case study to track the BMI process of six Danish MMNEs operating in China since November 2011. The three research questions were addressed in the three papers, with each paper focusing on each of the respective three questions.

Paper 1 (Chapter 3) answered the first question and explored how MMNEs' HQ specifically enable BMI at the subsidiary level. The emergent framework in Paper 1 indicates that two enablers are salient: *entrepreneurial aspiration* and *flexibility*. At the HQ level entrepreneurial aspiration and flexibility are the two primary enablers of BMI (in terms of new value creation and new value capture) at the subsidiary level, with dynamic capability (in terms of sensing and seizing new opportunities) as the underlying mechanism. Further, Paper 1 also found that BMI can contribute to the initial enablers in a feedback loop. Hence, Paper 1 contributes to the literature of BMI, dynamic

capability and MNE entrepreneurship by enriching all three research streams, especially the critical link between BMI and dynamic capability in the context of ISE.

Paper 2 (Chapter 4) answered the second question and explored how MMNEs' subsidiaries specifically enable BMI at the subsidiary level. Paper 2 proposed a theoretical framework with *initiative-taking* and *improvising* as two primary enablers for BMI, with dynamic capability as the core mediator, all at the subsidiary level in the context of cross-divide entry with a top-down venture from advanced markets to emerging markets. The findings of Paper 2 contribute to the emerging research stream of ISE.

Paper 3 (Chapter 5) answered the third question and explored the process of in BMI by MMNEs. This paper found three macro-level phases of BMI, i.e. *pre-BMI phase*, *BMI proper phase* and *post-BMI phase*, and four micro-level stages of BMI proper, i.e. *exploring* (related to the development of novel value proposition), *experimenting* (related to the development of product innovation), *constructing* (related to the development of novel revenue architecture) and *consolidating* (related to the development of novel cost architecture). In this paper, I have also identified the key drivers and barriers within and across the three generic phases and the four specific stages, especially from the perspectives of learning and unlearning as a duality.

6.2 Major Contributions

The findings of this dissertation make several contributions with both theoretical and practical implications, especially around the central theme of ISE. First, the process framework of Paper 1 has identified HQ's entrepreneurial aspiration by specifying its two core dimensions in terms of HQ's mandate and priority for subsidiaries in the context of MMNEs, as well as HQ's entrepreneurial flexibility by specifying its two core dimensions in terms of HQ's strategic flexibility and operational flexibility in the context of MMNEs.

Second, the process framework of Paper 2 has identified subsidiary initiative-taking by specifying its two core dimensions in terms of the subsidiary's proactive commitment as the entrepreneurial motive and innovative orientation as the entrepreneurial ability, as well as the

subsidiary's improvisation by specifying its two core dimensions in terms of thinking-acting convergence as the entrepreneurial motive and emergent creativity as the entrepreneurial ability.

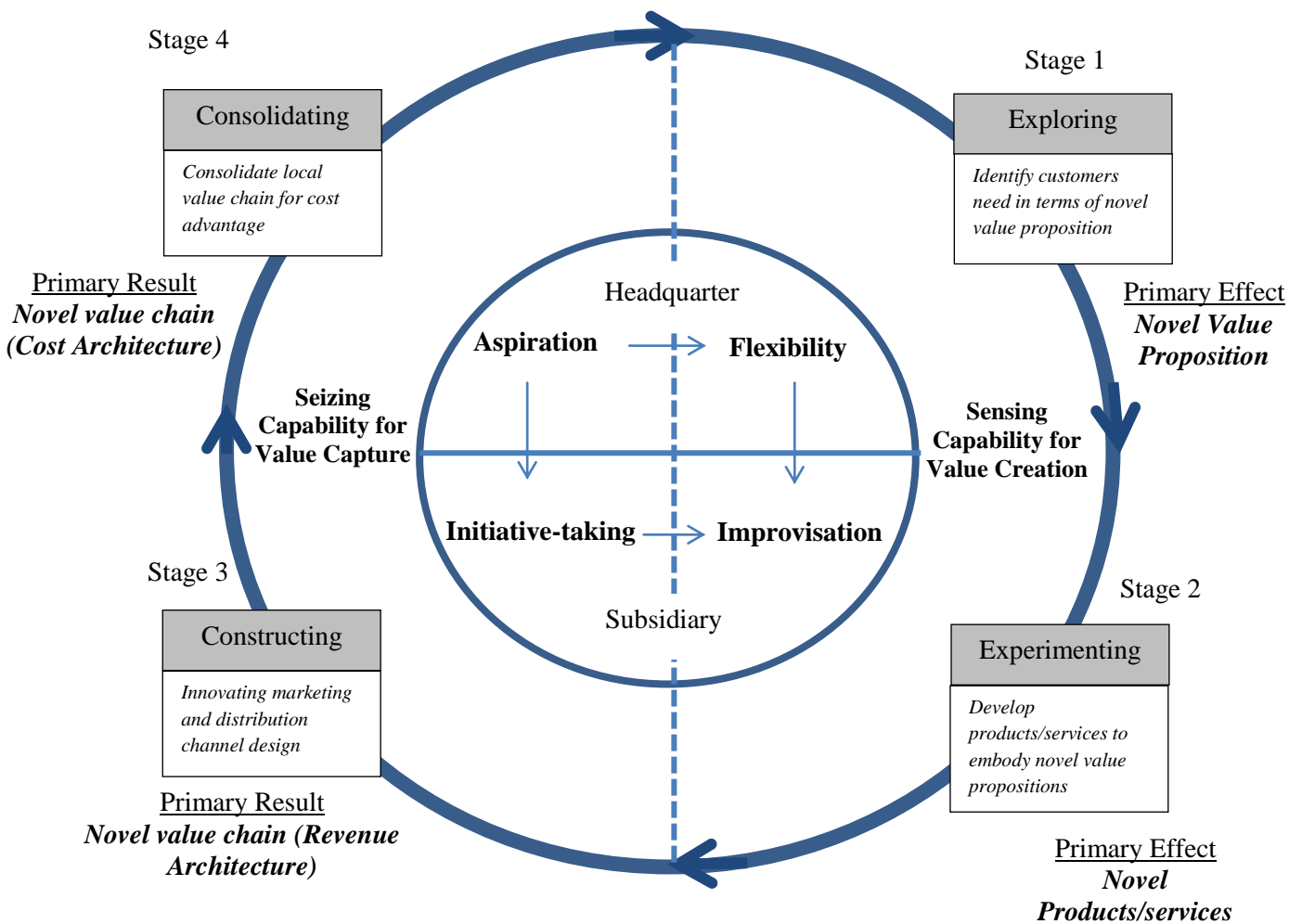
Third, the two process frameworks in Papers 1 and 2 have found sensing capability (as one dimension of dynamic capability) by specifying its two core dimensions in terms of market research ability and R&D ability, as well as seizing capability (as the other dimension of dynamic capability) by specifying its two core dimensions in terms of downstream and upstream value-chain design abilities. The two frameworks have also explored the mechanisms as enablers to facilitate BMI at the HQ and subsidiary levels via dynamic capability.

Fourth, the process frameworks of Papers 1, 2, and 3 have further explained the mechanism of value creation (as one of the two dimensions of BMI), by specifying its two core dimensions in terms of novel value proposition and product innovation for customers as the primary stakeholder, and value capture (as the other of the two dimensions of BMI), by specifying its two core dimensions in terms of novel revenue architecture and novel cost architecture for all non-customer stakeholders as the secondary stakeholders.

Finally, the process framework of Paper 3 has found the macro-level process of BMI, with the three phases of pre-BMI, BMI proper and post-BMI, and the micro-level process of BMI proper, with the four stages of exploring, experimenting, constructing and consolidating. It is worth noting that different drivers and barriers are associated with the three different macro-level phases and the four different micro-level stages, all with unique implications for research and practice.

My overall purpose is to develop an integrative process framework about how MMNEs from advanced economies implement their BMIs for mid-end markets in emerging economies, with China as a case. I posit that any process framework should consist of two generic dimensions. First, it must have a temporal dimension, which typically takes the form of a sequential order of multiple phases or stages. Second, it must have a spatial dimension, which typically takes the form of multiple interdependent elements. Figure 6.1 shows the integrative framework of BMI linking the three papers together.

Figure 6.1 Integrative Framework of BMI



6.2.1 Entrepreneurship as a Driver for BMI

Enablers are defined as the factors that facilitate the emergence of dynamic capabilities. In other words, they are factors or conditions that ‘enhance’ the development of dynamic capabilities (Eriksson, 2014). In this thesis, I found four key enablers: aspiration and flexibility at the HQ (Chapter 3, **Paper 1**) and initiative-taking and improvising (Chapter 4, **Paper 2**) at the subsidiary, which can enhance dynamic capabilities at the subsidiary level.

Why is the entrepreneurial **aspiration** in terms of a high mandate and high priority at the HQ level a salient enabler for the sensing capability of the value creation in BMI at the subsidiary level? The key reason is the positive impact of a high mandate on the motive at the subsidiary level to enhance the motivation of the subsidiary to sense new opportunities and take higher-than-normal

risks as an ISE. Additionally, the positive impact of a high priority on the ability at the subsidiary level with the prioritised access to key resources enables a higher capability to sense new opportunities toward BMI. Compared to all other typical innovations (e.g. product/service, process and marketing innovations), BMI is a higher-order innovation with the highest risk. The greater incentive to sense new opportunities and take the higher risk is fostered by the higher mandate, which encourages the subsidiary to prioritise the longer-term interest. If the HQ has a high mandate for its subsidiaries, the subsidiaries will take a bigger risk and overcome the resistance by focusing on the longer-term interests and novel ways to reach the high goal. At the same time, sensing new opportunities is very much ‘a scanning, creation, learning, and interpretive activity. Investment in research and related activities is usually a necessary complement to this activity’ Teece (2007: 1322). If the HQ has a high priority for its subsidiaries to access to key resources, the subsidiaries will improve their sensibility to the new opportunities for BMI. Therefore, I propose that, for an MMNE, the high entrepreneurial aspiration of the HQ for its subsidiaries will enable the sensing ability at the subsidiary level.

Why is the entrepreneurial **flexibility** in terms of high strategic flexibility and operational flexibility at the HQ level a salient enabler for both the seizing ability and the value capture in BMI at the subsidiary level? The key reason is the positive impact of high flexibility on the motive at the subsidiary level in terms of empowerment and the ability at the subsidiary level in terms of cooperation toward an ISE. The managers of subsidiaries who enjoyed the higher empowerment from the HQ had stronger senses of trust, responsibility and accountability, all of which are highly conducive to the ability to seize new opportunities for BMI. In general, the value chain of a subsidiary is often incomplete, meaning it must rely on the support and cooperation from the HQ in the process of BMI. If there is flexible cooperation between the HQ and the subsidiary, subsidiaries will improve their greater seizing capability to the new opportunities for BMI. Therefore, I propose that the high entrepreneurial flexibility of HQ in terms of high strategic flexibility and high operational flexibility will enable the seizing ability at the subsidiary level. This argument is in

keeping with prior research. For example, Eriksson (2014: 71) viewed flexibility as ‘a capability for organisational change, determines effectiveness in implementing continuous change’, and argued that flexibility ‘is suggested to be a prerequisite of all DCs (dynamic capabilities) in firms of all sizes’.

Why is subsidiary **initiative-taking** in terms of proactive commitment and innovative orientation a salient enabler for BMI at the subsidiary level via dynamic capabilities? The reason for the dynamic capability as a mediating role is the perspective that resource and capability provide the underlying mechanism for action and behaviour (Barney, 1991). BMI requires some special capabilities to manage the ambiguity and uncertainty of BMI process. In general terms, the BMI process can have five phases: mobilise, understand, design, implement and manage (Osterwalder and Pigneur, 2010). I can reframe the first three phases as they relate to value creation via sensing capability and the last two phases as they relate to value capture via seizing capability. Further, Zott and Amit (2010) identified two sets of salient parameters for BMI: (1) design elements (e.g. content, structure and governance that describe the architecture of BMI) and (2) design themes (e.g. novelty, lock-in, complementarities and efficiency that describe the sources of BMI). Again, I can reframe the design themes as they relate to value creation via sensing capability, and design elements as they relate to value capture via seizing capability. In this sense, the link between initiative-taking and BMI and the mediating role of dynamic capability for that link can be reasonably established.

Why is the subsidiary **improvisation** in terms of thinking-acting convergence and emergent creativity a salient enabler for BMI at the subsidiary level via dynamic capabilities? The reason is that thinking-acting convergence and emergent creativity are both extensively associated with dynamic capability in terms of sensing capability and seizing capability. The role of improvising is framed as ‘action speed’ and ‘action novelty’ (Moorman and Miner, 1998: 707). In this research, ‘action speed’ is reframed as the effect of seizing capability, while ‘action novelty’ is reframed as the effect of sensing capability. Therefore, I can see the inherent link between subsidiary improvisation and dynamic capability. This research study found that improvising plays a very

important role in capturing attractive, fleeting market opportunities for creating new business models and profits sooner, faster and more effectively than competitors (Eisenhardt and Martin, 2000). More specifically, owing to the special context of a top-down venture for a mid-end market by MMNEs, the specific path from thinking-action convergence (the first dimension of improvising as a motive) to BMI via dynamic capability can be the first sub-path for the salient link between improvising as a motive and BMI as an action, and the specific path from emergent creativity (the second dimension of improvising as an ability) to BMI via dynamic capability can be the second sub-path for the salient link between improvising as an ability and BMI as an action. These two sub-paths constitute the general path from improvising to BMI via dynamic capability as the mediator.

6.2.2 Dynamic Capability as a Driver for BMI

Teece et al. (1997:516) developed the notion of dynamic capabilities, which was defined as ‘the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments’. From this definition, I can see that the dynamic capabilities approach attempts to explain a firm’s ability to compete in turbulent environments and adapt to dynamic environmental demands by altering and configuring its resource base. For example, Teece and colleagues saw ‘competitive advantage in turbulent environment as a function of dynamic capabilities rather than competitive positioning or industry conflict’ (Pavlou and EI Sawy, 2011:241). The term ‘dynamic’ refers to ‘the capacity to renew competences so as to achieve congruence with the changing business environment; [...] the term ‘capabilities’ emphasises the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organisational skills, resources, and functional competences to match the requirements of a changing environment’ (Teece et al., 1997: 515). In terms of the dynamic capabilities approach, firms who have a sustainable advantage in a fast-moving business environment require not only the ownership of difficult-to-replicate (knowledge) assets, but also unique and difficult-to-replicate dynamic capabilities because these capabilities can ‘be harnessed to continuously create, extend, upgrade, protect, and keep relevant the enterprise’s unique asset base’ (Teece, 2007: 1319).

BMI, as a higher-order innovation with the highest risk, always requires special capabilities to manage ambiguity and uncertainty in the process. According to Winter (2003), capabilities are collections of routines, which are behaviours that are learned, highly patterned, repetitious or quasi-repetitious, founded in part in tacit knowledge and the specificity of objectives. The goal of operational or ordinary capability of an organisation is to ‘earn its living by producing and selling the same product, on the same scale and to the same customer population over time’ (1992).

To better understand dynamic capabilities, it is imperative to distinguish between dynamic capability and operational capability because dynamic capabilities are different from other kinds of capabilities; they ‘reflect an organization’s ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions’ (Teece et al, 1997:516) . Although both ordinary capabilities and dynamic capabilities are ‘collections of routines’, dynamic capabilities describe the ability to reconfigure and change, whereas operational capabilities denote the ability to ‘make a daily living in short time’. Thus, operational capabilities are viewed as the ability to ‘execute day to day activities’ (Pavlou and El Sawy, 2011:242). Dynamic capabilities are viewed as higher-order capabilities that influence the development of operational capabilities or ordinary capabilities (Winter, 2003; Cepeda and Vera, 2007; Teece, 2012, 2014). As Teece argued in two papers:

‘Dynamic capabilities are higher-level competences that determine the firm’s ability to integrate, build, and reconfigure internal and external resources/competences to address, and possibly shape, rapidly changing business environment’. (2012:1395)

‘When examining competitive advantage, it is therefore critical to distinguish between ‘ordinary’ (and easily replicable) capabilities and dynamic capabilities, which by their very nature are hard to replicate. [...] Ordinary capabilities support technical fitness, while dynamic capabilities support evolutionary fitness. The former is about the enterprise ‘doing things right’, the latter has more to do with ‘doing the right things’ (2014:18).

From these arguments, I can see that dynamic capabilities are ‘strategic’ and distinct from ordinary capabilities. Firms can maintain and extend competitive advantage by layering dynamic capabilities on top of ordinary capabilities. According to Teece (2007), dynamic capabilities were disaggregated into three capacities: (1) identification and assessment of an opportunity (sensing), (2) mobilisation of resources to address an opportunity and to capture value from doing so (seizing) and (3) continued renewal (transforming).

In this thesis, I defined business model as a firm-specific, yet open, holistic system of well-coordinated functional activities on the dual dimensions of resource configuration (activity content) and task coordination (activity process) for the dual purposes of value creation and value capture (cf. Amit and Zott, 2012; Li, 2010; Zott et al., 2011). In this sense, I refer to BMI as a higher-order innovation compared to lower-order product, service and process innovations (cf. Amit and Zott, 2012; Collis, 1994; Mitchell and Coles, 2003; Zott et al., 2011). Further, as a higher-order innovation, BMI must always occur at the system level in terms of coordinated innovations in at least two functional areas, which result in the change in one or both of the dual dimensions (i.e. resource configuration and task coordination) for the dual purposes (i.e. value creation and value capture). In **Paper 1** (Chapter 3) and **Paper 2** (Chapter 4), I found that, as a meta-capability, dynamic capability (with the dual dimensions of sensing and seizing new opportunities) is the underlying mechanism for BMI in which SMEs create and/or renew ordinary capabilities at the system level on the dual dimensions of sensing and seizing new opportunities for the dual purposes of value creation and value capture.

6.2.3. A Four-Stage Micro-Level Process Model of BMI

For most multinational firms, BMI rarely happens automatically. In **Paper 3 (Chapter 5)**, I developed a Four-Stage Micro-Level Process Model to explain how MMNEs should innovate their business model, and I identified the main activities and barriers in the four stages.

In the exploring stage, MMNEs focus on three main activities such as understanding the Chinese mid-end market, defining the right niche segments and identifying the novel value proposition. The

main effect of this stage is novel value propositions. Using the customer's novel value proposition as a guide, MMNEs begin to develop suitable solutions to fit the customers' needs. In the experimenting stage, MMNEs typically take two steps for product development. They first follow an adaptive strategy in which they take the starting point of an existing product and quickly adjust or adapt it to the mid-end market need. If the adaptation fails, they have to create and develop new products that are suitable for the local needs, with features that are different to the companies' existing offering. Because it could take a long time to develop new products or services, some successful firms adopted the acquisition strategy by buying local Chinese enterprises and keeping the local brand for the Chinese mid-end markets. The main effect of this stage is to create novel products/services. In the constructing and consolidating stage, the MMNEs configured their prior local value chain or value network to obtain a cost advantage. The main activities are innovating marketing and distribution channel design, improving the efficiency of the manufacturing process, and sourcing locally to lower costs. Overall, these four stages capture the core of BMI. All activities in the four stages are related to the elements of BMI with content, structure and governance (Zott and Amit 2010). In sum, this integrative model captures all core elements of BMI.

6.3 Salient Implications for Research and Practice

In this section, I summarise the implications of this dissertation from both theoretical and practical perspectives. This dissertation mainly contributes to theories on BMI and ISE in an MNE context. Specifically, there are four contributions on both theory and practice.

6.3.1 Implications for the Research and Practice Related to Dynamic Capability and BMI

The first primary contribution of this study is the explicit identification of the salient link between dynamic capability and BMI. The two process frameworks (in Papers 1 and 2) find sensing capability as one dimension of dynamic capability, by specifying its two core dimensions of market research ability and R&D ability, and seizing capability as the other dimension of dynamic capability, by specifying its two core dimensions of upstream value-chain design ability and

downstream value-chain design ability. The two frameworks also explore the mechanism of how enablers facilitate BMI via dynamic capabilities.

6.3.2 Implications for the Research and Practice of the HQ's Role in BMI

The second primary contribution of this study is exploring the HQ role in the BMI at the subsidiary level. The framework of Paper 1 finds entrepreneurial aspiration, by specifying its two core dimensions of the HQ's mandate and priority for subsidiaries in the context of MNEs, and entrepreneurial flexibility, by specifying its two core dimensions of HQ's strategic flexibility and operational flexibility in the context of MNEs.

6.3.3 Implications for the Research and Practice of the Subsidiary's Role in BMI

The third primary contribution of this study is exploring the subsidiary's role in the BMI at the subsidiary level. The process framework of Paper 2 finds the subsidiary's initiative-taking by specifying its two core dimensions of proactive commitment as the entrepreneurial motive, innovative orientation as the entrepreneurial ability, and the subsidiary's improvising effort by specifying its two core dimensions of thinking-acting convergence as the entrepreneurial motive and emergent creativity as the entrepreneurial ability.

6.3.4 Implications for the Research and Practice of the BMI Process

The fourth primary contribution of this study is exploring the BMI process at the subsidiary level. The process framework of Paper 3 further identifies value creation as one of the two dimensions of BMI, by specifying its two core dimensions of novel value proposition and product innovation for customers as the dominant stakeholder, and value capture as the other of the two dimensions of BMI, by specifying its two core dimensions of cost architecture and revenue architecture for non-customer stakeholders as the subordinate stakeholders. Further, the process framework of Paper 3 fines the process of BMI and identifies seeking, developing, configuring and growing as the four stages of the BMI process.

In conclusion, the process frameworks in this dissertation bear key implications for both research and practice. These frameworks showcase the potential to integrate the currently separated research

streams on business model (BMI), dynamic capability, and the HQ-subsidary relationship into the interdisciplinary domain of ISE.

6.4 Limitations

There are three major limitations of this dissertation. First, this dissertation only focuses on a single home country (i.e. Denmark) and a single host country (i.e. China). This specific design has the limitation of being too narrow to compare multiple home countries and/or multiple host countries. Future research can consider two different design options. One option is to design a study with multiple home countries. For example, one can compare MMNEs from Denmark, Germany and the USA to enter the mid-end market of a single host country (e.g. China, India or Brazil). The other option is to design a study with multiple host countries. For example, one can compare MMNEs from a single home country (e.g. Denmark, Germany or the USA) to enter the mid-end markets of multiple host countries (e.g. China, India and Brazil). These two options can provide a much richer context for theory-building.

The second limitation of this dissertation design is that all six Danish firms are still in the relatively early stages of the BMI process, so I cannot be sure about the entire BMI process. Future research can select firms that have completed the BMI process in order to examine all specific mechanisms over all stages of the BMI process.

The third limitation of this dissertation is the lack of attention to the holistic and dynamic interplay between the HQ and subsidiary. The interplay between the HQ and subsidiary needs to be studied because the two players can have conflicting and/or complementary relationships, and the net effect of such interplay will directly shape the outcome of BMI performance. For example, strong entrepreneurship at the HQ may help remedy relatively weak entrepreneurship at the subsidiary level, and vice versa.

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