

Business Model Innovation and the Balanced Scorecard

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INTRODUCTION

Over the last decade, strategic management has emphasized the business model as a theoretical framework for formulating and implementing an innovation strategy that creates value for organizations. In the global economy, the competition to create value has taken on a new dimension, as business model innovation (BMI) has become a new frontier of strategy. Increasingly, multinational firms are focused on innovating their business models, rather than developing new products and technology, to create greater business value. If innovation is the essence of value creation, maximizing the efficacy of innovation should be a primary *strategic focus* of business leaders.

The *balanced scorecard* has become a popular business analytic tool of academics and practitioners. Little has been done, however, to use the balanced scorecard as a business analytical framework to measure the effectiveness of BMI. Therefore, we propose a matrix that applies a set of metrics and key success factors for each of the four categories of the balanced scorecard to the four basic components of the business model. This business analytic framework will provide a means for optimizing BMI.

BACKGROUND

Business Model

Strategy scholars have described the *business model* as the logic and rationale for creating economic value in an organization for the benefit of its stakeholders. For example, Casadesus-Masanell and Ricart (2010) characterized the business model as a locus of innovation, planning tool, heuristic logic, or market device. Amit and Zott (2001) defined it as the content structure and governance of transactions designed to create value by exploiting business opportunities. The business model defines the total value created in transactions from a firm's products and services (Zott & Amit, 2010) and provides a coherent framework that takes technological characteristics and potentials as inputs and converts them through customers and markets into economic outputs.

Chesbrough and Rosenbloom (2002) outlined the basic functions of the business model:

1. Articulate the value proposition, i.e. the value created for users by offering based on the technology;
2. Identify the market segment, i.e. the users to whom the technology is useful and for what purpose, and specify the revenue generation mechanisms for the firm;

3. Define the structure of the value chain within the firm required to create and distribute the offering, and determine the complementary assets needed to support the firm's position in this chain;
4. Estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen;
5. Describe the position of the firm within the value network linking suppliers and customers, including identification of potential complementors and competitors;
6. Formulate the competitive strategy by which the innovation firm will gain and hold advantage over rivals (pp. 533-534).

Collectively these functions provide justification for the financial capital needed to realize the model and help the organization define a direction to take.

The traditional organization business model was focused on adhering to pre-specified plans to ensure efficiencies and achieve established goals (Malhoutra, 2001). However, this model was best suited for more stable and predictable environments. Organizations faced with more dynamic and uncertain environments have been forced to reevaluate their traditional business models and best practices. Many successful organizations have refocused their efforts on knowledge management systems for BMI. The application of this framework enables organizations to develop new business models that are more flexible, adept, and adaptive to the ever-changing environment. BMI enables organizations to create new markets or transform existing markets into significant market value and have an impact on the long-term success of a company (Comes & Berniker, 2008). Managers who understand their organization's business model have better insight into metrics and management levers. BMI can create tremendous growth, reshape companies and industries, and redistribute billions of dollars of value.

Balanced Scorecard

B

The balanced scorecard is a strategic planning and management system that incorporates both financial and non-financial indicators to help align business activities with the overall strategic vision of the organization. The term "balanced scorecard" was first coined by Art Schneiderman in 1989, but many of the concepts of performance and management as an activity run deeply throughout management literature and practice. Robert Kaplan and David Norton of the Harvard School of Business are credited with developing many of the key concepts of the balanced score card in their framework composed of four perspectives:

1. Financial,
2. Customer,
3. Internal Business Processes, and
4. Learning and Growth (Kaplan & Norton, 1992).

The financial perspective refers to the strategy for growth, profitability, and risk as seen from the perspective of the shareholder. The customer perspective refers to how the customer perceives the organization's strategy for creating value and differentiation of products or services. Internal business processes refer to the strategic priorities for various business processes that have the ability to create customer and shareholder satisfaction. The learning and growth perspective refers to the priorities that create a climate conducive to supporting organizational change, growth, and innovation.

The balanced scorecard provides a framework for improving organizational performance by translating the firm's vision into operational goals, communicating the vision and linking it to individual performance, initiating business planning and index setting, and receiving feedback and generating learning while adjusting the strategy accordingly. By considering financial objectives, the balanced scorecard establishes performance

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