Unlearning Troubled Business Models: From Realization to Marginalization

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To cope with technological, economic and institutional changes, organizations need to innovate their business models (BM) by both developing new BMs and reducing their reliance on troubled BMs. While the development of new BM has been discussed in the literature, little systematic studied have examined how firms deal with the challenges arising from their troubled *existing* business models (unlearning BM). Based on two longitudinal case studies, we propose a process model that that constitute four stages of BM unlearning: "realizing", "revitalizing", "parallelizing", and "marginalizing". We discuss how unlearning dynamics help us to understand the importance of both single- and double-loop unlearning, to consider the double-faceted nature of BM (holistic and component-based), and to recognize the complex temporal dynamics of BM unlearning. Accordingly, we articulate four traps: "cognitive trap" (during realizing), "confidence trap" (during revitalizing), "mixing trap" (during parallelizing), and "reversion trap" (during marginalizing). We comment on the practices companies might adopt in dealing with these challenges.

Introduction

The emergence of new information and communication technologies with the application of Internet and e-commerce for businesses, the establishment of open, global trading regimes, the outsourcing trend, and restructuring of the financial services industry have rendered some traditional business logics no longer viable. For example, the value of the traditional newspaper publishing model plummeted with the advent of the online newspaper model, which offers different value propositions through a wide range of services on mobile agents, customized news alerts, and rapid search options. When the value generated by a core business logic shrinks, firms need to innovate their BMs (Teece, 2010), since the implementation of traditional BMs does not create and capture value. Worse still, sticking to the old BM may be a shortcut to business failure (Amit and Zott, 2012). Organizations have increasingly realized that mere product and process innovation may not suffice to their need to change their fundamental logic of business. As a result, BM innovation has been seen as a critical prerequisite and a complement to product and process innovations (Amit and Zott, 2012).

Business model renovation not only involves developing a new BM, but also requires avoiding the potential drawbacks of relying on the existing BM — that is to say, *unlearning* the old BM. In their scheme for transforming a business model, Govindarajan and Trimble (2010) suggest that "selectively forgetting the past" is vital for creating and developing a new BM. It often poses a big challenge, but "the secret to winning over the long run lies in knowing what to forget and what to create" (Govindarajan and Trimble, 2010, 114).

Relying on a troubled BM that is deeply intertwined with almost all organizational aspects can hinder the emergence of ideas for shaping new BMs, by narrowing the minds of actors and biasing their ideas towards the existing business logics (Bettis and Prahalad, 1995). The ubiquity of the existing BM can filter and suppress new ideas that could otherwise be transformed into a new BM. The old BM can narrow the scope of application of new ideas, for example, by limiting them to a small peripheral business unit. The prevalence of an outdated BM can also slow down the institutionalization of a new BM (Bettis and Prahalad, 1995). Thus, an enterprise must make efforts to "break the rules that had previously guided its success" (Johnson et al., 2008, 66).

Accordingly, scholars have argued that unlearning a troubled business model is harder than learning new ways of doing business, because organizations often develop multiple cognitive, structural, cultural and political dependences on the existing BM (Hamel and Prahalad, 1994). Thus, unlearning might appear more crucial for well-established companies (Teece, 2010), since they have to "unlearn most of what made them so successful" (Afuah and Utterback, 1997, 196).

Previous studies have emphasized the importance of BM dynamics, mainly by examining how *new* ideas emerge and how organizations turn these ideas into a new business by developing a new BM (Sosna et al., 2010; Teece, 2010). The

literature of BM innovation has suggested that it is not sufficient for enterprises to adopt the new BM. It is also vital that companies properly unlearn their existing BMs, since the way existing BMs are treated can influence the success of BM innovation (Johnson et al., 2008; Osterwalder and Pigneur, 2013; Teece, 2010). These studies highlight the potential challenges organizations might face if they are too strongly attached to their current BM. Although some studies have stressed the importance of unlearning troubled BMs (Govindarajan and Trimble, 2010; Sosna et al., 2010), few of them have systematically examined the *process* through which organizations reduce their reliance on old, troubled BMs and resolve the conflicts they can cause in the transition to a new model.

We seek to understand the *process* through which organizations unlearn their troubled BMs, by focusing on the practices they adopt and the way in which their understandings of the BM and its components change over time. We rely on two longitudinal, in-depth case studies to unpack the unlearning process and its dynamics. The process model then allows us to unravel the complexity of cognitive and behavioral aspects of BM unlearning, especially when we compare it with unlearning of other business elements, such as specific technologies and routines. We show how the holistic nature of a BM and its roots in various business components make it challenging to unlearn it, and that requires preventing and dealing with several traps at different stages in the process. We show that mere reliance on unlearning business components is not enough for successful unlearning of a BM, and that a component-based approach toward unlearning the troubled BM can even be a hindrance, if it overlooks the holistic aspect.

Background literature

Defining business model

BM is defined as the overall logic of business through which firms create value (for various stakeholders) and appropriate it (Teece, 2010; Zott et al., 2011). The concept of BM straddles two intertwined aspects: 1) the "system-level, holistic" logic that underlies the business, and 2) the "component-level, local" activities and resources through which the overall logic is implemented (Zott and Amit, 2013).

Being understood as an overall "*template* that depicts the way the firm conducts its business" (Zott and Amit, 2013, 404; emphasis added), a BM reflects the holistic logic of business (Teece, 2010). The holistic aspect of BM is often discussed in theories that look at BM as an overarching organizational form and structure (McKendrick and Carroll, 2001) that represents the overall theory of doing business (Chesbrough and Rosenbloom, 2002). This perspective is reflected in studies that have conceptualized BM as a typical model (Baden-Fuller and Morgan, 2010) that can be a "set of cognitive configurations that can be manipulatable in the minds of managers (and academics)" (Baden-Fuller and Mangematin, 2013, 418). Hence, a BM is everywhere but nowhere! One cannot examine BM by only focusing on a given part of the business (e.g., a specific process). Metaphorically, this aspect sees the whole jungle, rather than the trees separately. This overall design might emerge as an idea — for example, when managers chart their business model — even before the BM is actually implemented (Romme, 2003), reflected in all business components and activities, and might be re-designed into a new template of BM (Zott and Amit, 2013).

At the same time, BM points to a "system of interdependent activities that are performed by the firm and by its partners and the mechanisms that link these activities to each other" (Zott and Amit, 2013, 404); it draws attentions to the very business *components* and relationships between them (Zott et al., 2011). For example, Osterwalder and Pigneur (2013) distinguish between nine BM components: cost structure, revenue model, value proposition, customer segment, customer relationships, channels, key activities, key resources, and supply chain. These components are expected to fit into the overall logic of the business. While it is vital to understand the BM as an overall logic, the component-based approach allows one to see how the overall logic of business is specified and implemented. These complementary views are needed to be kept as two sides of the coin, in order to gain a deep understanding of BM and its evolution.

Troubled business model: indications, triggers, and consequences

A troubled BM is the one whose potential for generating value has shrunk (Teece, 2010), and which cannot yield the value hitherto expected. The underlying economic and social conditions often determine to what extent a BM is troubled (Adner and Snow, 2010). For instance, the advent of digital technology made the traditional watch-making model obsolete, yet there remained a market niche of customers who valued expensive, antique mechanical watches (Adner and Snow, 2010). In addition, the value of the existing BM and the potential challenges of relying on it can change over time. Thus, being troubled does not necessarily mean the BM is completely useless; rather, it may simply reflect a relative and temporary shrinkage in the potential value a BM can yield.

Several factors such as radical technological changes — e.g., the emergence of new technologies, changes in rules and regulations, culture, and the broader socio-economic setting, such as globalized trade and economic recession — might threaten the value of traditional BMs (Chesbrough, 2007, 2010). By relying on troubled BMs, organizations not only constrain their value creation and value appropriation opportunities, but they also might compromise their "subsequent search for new" (Chesbrough and Rosenbloom, 2002, 529). Thus, as a critical prerequisite for BM renovation, Bettis and Prahalad argue that *before* developing new BMs, "the old logic must in a sense be unlearned by the organization" (1995, 10).