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Leveraging business models with great leadership

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Kickass Companies: Leveraging business models with great leadership

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Introduction and theoretical setting

The world loves winners. Whether it is successful athletes, politicians, or business people who outperform the pack, there is a continuous longing to study successful people and to learn from them so that we too may improve ourselves. This mechanism is embedded in human nature but also goes for businesses and organisations in general.

In the past, researchers and practitioners alike have strived to identify the outstanding practices, also known as "best practices", and optimised processes of successful companies to learn from them and use them to improve their status quo. This is a good thing, as learning from best-practice cases is an effective means of understanding the principles and specifics of good ways of doing business. However, in the literature, there is a tendency to study only large international corporations like Apple, Google, Amazon, and Proctor & Gamble, even though small and medium-sized enterprises (SMEs) constitute the dominant form of business organisations in all countries worldwide. SMEs represent between 95% and 99% of the enterprise population depending on the industry and state (Deakins & Freel, 2009). However, for an SME, it can be hard to learn from these multinational billion-dollar businesses, as the SMEs typically are constrained by scarce resources in ways that larger corporations are not (Knight, 2000; Chesbrough, 2007).

There are countless examples of SMEs that clearly outperform their competitors and deliver exceptional financial results via outstanding practices, in many cases to much higher degrees than their esteemed global counterparts. When the spotlight falls on SMEs, we rarely see successful companies characterised as having unique patents, intellectual property, specifically nuanced strategies, or above-normal capitalisation rates. Hence, we speculated that there must be a set of alternative explanations and recipes for the apparent success of such SMEs and – literally – how they kick ass.

The objective of this paper is to highlight what can be learned from the best SMEs and how we might apply their mechanisms of excellence as best-practice examples. Our point is that a model of the critical elements and relationships that create a Kickass Company – based on SME data will – in the long run, comprise the most valid model for other SMEs looking at improving their performance.

In our search for excellent-performing SMEs, it became evident that traditional strategy tools and mindsets like five forces (Porter, 1980), SWOT, or PESTEL analysis were incapable of explaining the dimension of exceptionality. In the search for a stronger theoretical standpoint, we were inspired by a series of management theories relating to corporate culture (Logan et al., 2008; Collins, 2001). We were also influenced by the notion of

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business models and the practical tools related to this movement (Osterwalder & Pigneur, 2010; Osterwalder et. al, 2014).

The power of business models lies in their ability to visualise and clarify how firms may configure their value creation processes. Among the key aspects of business model thinking are a focus on what the customer values, how this value is best delivered to the customer, and how strategic partners are leveraged in this value creation, delivery, and realisation exercise. Central to the mainstream understanding of business models is the value proposition towards the customer, and the hypothesis generated is that, if the firm delivers to the customer what he/she requires, then there is a good foundation for extensive customer loyality and a long-term profitable business.

Hence, the objective here is to study the intersection between business models, corporate culture, leadership, execution, and the ability to deliver continuously outstanding financial results. In other words, we want to determine how to leverage business models through great leadership – and ultimately create significant financial results from this. Our review of the aforementioned literature led to the statement of the following hypotheses from which an empirical study could depart:

1. The organisation and configuration of a company depend upon how competitive their primary market is.
2. Companies' ability to create relationships with customers and partners and to utilise these relationships are important factors in optimising the business model, as these relationships help to create lock-in and higher knowledge flows to and from these partners.
3. Clear communication from the management about the company's objectives, a strong focus on employee well-being, and a "we-culture" create a healthy environment and thus better business results.
4. Companies that are propelled by a determination to become world champions perform better than average.
5. An open and decentralised leadership approach is necessary for employee satisfaction and ultimately influences the company's performance.
6. Hiring personnel from matching value sets creates the best team in the long run and therefore also the best results.
7. How companies choose to compete and configure their business model will have an impact on the company's performance.
8. A strong customer focus is essential for good long-term performance, and a focus on helping customers create value contributes to maintaining the company's source of business.

Methods

The aim was to produce valid and reliable results based on research on SMEs. For this purpose, the data collection was organised around the hypotheses and carried out in two phases.

Data collection phase 1

The first stage is based on data collected through an online questionnaire published by the Business Model Design Centre at Aalborg University. The survey was sent to over 7,000 Danish companies via direct e-mail and resulted in 755 useful responses from a broad selection of Danish SMEs. The research group then analysed the data for non-response bias. To reduce the total number of variables (93), variables within the same "theme" were merged using the Cronbach's alpha test. The construction of the latent variables, equivalent to the hypotheses, was optimised for their effect on corporate performance using a factor analysis. The responses are distributed across industries as indicated in Table 1.

The survey included the following themes:

- Background about the company
- Characterisation of the market's competitiveness and dynamics
- The importance of the company's collaborations with external partners in the value chain
- Management style and the company's mindset
- Characterization of the company's revenue patterns
- Characterization of the company's customer focus and interactions with customers
- The company's performance on financial and non-financial indicators

Table 1: Responses from industries

Industries	Frequency	Percentage
Transportation	47	6.2
Retail	123	16.3
Utility	9	1.2
Hospitality	38	5.0
Agriculture	127	16.8
Construction	63	8.3
Housing	30	4.0
Service	318	42.1
TOTAL	755	100.00

Regarding performance, we did a further study using available data from the NN Market Data company database[1]. This study was done to support the companies' performance score with the average growth in turnover over the last five years and average growth in profit be fore tax over the last five years. Influenced by the criteria used in the Good to Great model (Collins, 2001), we selected parameters that were relevant and measurable for our SME context. The research group validated each of the 755 data points on performance.

The statistical analyses were performed by dividing the data set into two groups: a low-performance group (companies with an aggregated overall performance score below 6.00, using a seven-point Likert scale) and a high-performance group (companies with an overall performance score of 6.00 or above). The high-performance population consisted of 117 businesses, and the average overall performance score of this group was 6.23. The average number of employees in the population was 35, ranging from three to 216 employees. For the analyses, we used linear regression models and chi-squared tests to validate the initial hypotheses. Before this, the conditions for linear regression and analysis of variance as the root mean square was tested and verified based on the guidelines introduced in Stubager and Sønderskov (2011).

In the last part of the analysis, the research group ranked the companies' performance based on financial data collected through secondary data sources. In this step, a population of 24 companies stood out from the rest of the dataset. These companies both had good performance values from the questionnaire and particularly strong financial characteristics based on our second analysis. We identify these 24 companies as Kickass Companies.

Data collection – phase 2

In the second stage of the data collection, we used semi-structured qualitative interviews to analyse the population of Kickass Companies identified in phase 1. The purpose of this was to uncover the essential aspects of being a Kickass Company. This qualitative part of the investigation was based on interviews with representatives of 12 of these Kickass Companies. The data processing and analysis included methods to ensure validity and reliability, including a semi-structured interview guide, audio/video recording of the interviews, transcriptions, and analytical pattern recognition in the empirical work.

Findings: What constitutes a Kickass Company?

Based on the eight hypotheses developed from the literature on business models, leadership, and how best to implement unique business models, the empirical evidence unveils a model containing six critical elements that create a Kickass Company. From the extensive data analysis process – both the quantitative as well as the qualitative – we found several areas or practices and processes where the Kickass Companies were significantly different from the rest of the population. These are presented in the following six findings.

Finding no. 1: You need willpower

In Kickass Companies, we found certain traits of a distinct management style and mindset. More specifically, the mindset of the management team and the relationship between the management team and the employees was an area where the high-performance companies were significantly different from the rest of the population.

To be a Kickass Company, you need a strong leader or management team with the ability to maintain focus on the company's core business activities and , if necessary, the willpower to trim the business accordingly by outsourcing tasks and activities that are outside the company core. These traits were present in the high-performance companies in our analysis. In Kickass Companies, managers are leaders who lead the way, not administrators hiding behind desks.

The aforementioned finding is in line with another crucial aspect of Kickass Companies, namely a passion for becoming the best in one's field of operation. In the best-performing companies, this is often sensed all the way down to the employees' passion for the job. It also means that there is an understanding of the company's core mission and a focus on it throughout the organisation and that the management can transform its vision into a language that the employees understand.

In other words, to become a Kickass Company, you need to have a clear vision and a transparent strategy that the employees can relate to. However, within the Kickass Companies segment, we found that employee involvement at the strategic level is not essential for performance. However, employee involvement plays a significant role at the tactical and operational levels with respect to improving and developing the company and how it works. Kickass Companies are found to apply both a traditional top-down management style at the strategic level and a more bottom-up approach at the tactical and operational levels.

Finding no. 2: You need to be there for your customers

Kickass Companies are found to possess specialised knowledge of their customers and their respective needs. As such, they have high customer intimacy, resulting in a deep understanding of the customer's situation and desired outcomes. Kickass Companies are found to be superior at optimising the customer's value creation by focusing on helping to deliver superior customer value to the customer's customer.

The idea that companies succeed by selling value is not new. However, Kickass Companies had a significantly greater focus on improving their customers' business and helping the customer become more efficient about his/her respective customers. Our study illustrates that the highest-performing companies are able to improve the liquidity of their customers, which is a strong anchor point for cooperation. Kickass Companies have the unique ability to focus on creating economic profit within the "us and our customers" ecosystem.

Finally, the highest-performing companies in our sample are significantly different when it comes to focusing on sales. Their knowledge of the customers is found to be a crucial resource in this work, and listening to the customer is an important point in creating value-adding processes from idea to final product/service. In short, Kickass Companies are customer-centric organisations.

Finding no. 3: You strive to be the best

In line with finding no. 1, Kickass Companies compete through product/service leadership. They tend to offer a superior product or service and can achieve premium prices because of the experience they create for their customers. They are excellent at leveraging their expertise across organisational boundaries by mastering such disciplines as collaboration and knowledge management.

Because our sample of companies consists of SMEs, this finding correlates significantly with the characteristic that Kickass Companies, in some manner or another, specialise in a certain niche, so they ensure that they do not end up competing exclusively on price.

Finding no. 4: Success is a "we thing"

Kickass Companies have a "we culture". Even though our sample of Kickass Companies has a top-down management approach at the strategic level – as learned in finding no. 1 – they furthermore succeed in developing a strong culture with a high degree of "we–consciousness". In such a corporate culture, the employees are typically deeply involved at the tactical and operational levels to improve and develop the company and how it works.

[1] NN Market Data is one of Denmark's leading knowledge banks.

In the data, we also found strong relations between the management, who are sometimes also the owners, and the employees, which provides a breeding ground for good internal relations that leads to better knowledge sharing. Kickass Companies emphasise the importance of collective knowledge sharing, giving the employees responsibility and ensuring that everyone can contribute. Finally, Kickass Companies emphasise the importance of competence development and the fact that employees need to feel challenged to a certain degree to perform best.

Finding no. 5: You need to be able to accelerate
Kickass Companies' performance is found to be driven by a focus on growth. One of the ways for these companies to expand their business is through internationalisation. In contrast to the rest of the pack, Kickass Companies are significantly different in their attitude towards exporting, as they continuously scan for opportunities to sell abroad.

These high-performance companies are found to have implemented business models that are flexible in that they can accommodate changing market requirements. Our research illustrates that, besides frequent existing messages in the business literature relating to the importance of creating agile businesses in both growing and declining economies as well as hard-to-copy value propositions or value propositions that take a long time to replicate, business model scalability in Kickass Companies can typically be placed in one of the following four dimensions:

1. The firm is removed from otherwise typical capacity constraints of the particular type of business.
2. Partners that enrich the value proposition without hurting profits are included.
3. Stakeholders take multiple roles in the business model and create value for one another.
4. The business model becomes a platform that attracts new partners, including competitors.

Finding no. 6: Use motivating KPIs
Last, the use of target figures and key performance indicators (KPIs) are found to have a particular role in Kickass Companies. Here, KPIs are used to improve the performance of the company through a positive outlook. KPIs are thus not used as a control mechanism but instead to measure, develop, and improve the organisation and to stay focused.

Our study finds that KPIs are all too often not identified through a strict analysis of value creation, for example, based on the business model of the company. Our analysis of Kickass Companies' performance concerning some financial and non-financial parameters leads us to formulate four pieces of good advice:

1. Identify KPIs that will motivate owners, managers, and employees.
2. KPIs should be used to focus on what needs to be improved/developed in the company.
3. KPIs should reflect the core focus of the company.
4. KPIs should inspire and create energy around the vision of the company, not serve as control mechanisms.

Concluding remarks
This paper is based on a study of 755 Danish SMEs and further in-depth case studies of 12 of these. Its objective was to identify a model of components and relationships among the very best, most efficient, high-performing SMEs. We call these Kickass Companies. The result is a model made up of six interrelated dimensions, which together illustrate what makes up a Kickass Company:

1. You need willpower
2. You need to be there for your customers
3. You strive to be the best
4. Success is a "we thing"
5. You need to be able to accelerate
6. Use motivating KPIs

Following these six dimensions might not be a guarantee of success, and not all components will be implementable in all types of companies. However, the empirical evidence here suggests that, if companies think along these lines of doing business, their probability of success will be higher than otherwise.

Finally, there is the question of "how to do this". We suggest that you take a closer look at the online tools available on www.kickasscompanies.com, where you will also be able to sign up for our forthcoming book.

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