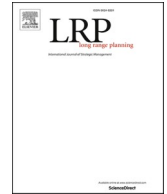




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Leadership and business model innovation in late internationalizing SMEs

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ABSTRACT

Drawing on the distinction between small-scale and large-scale business model innovation, and between directive and empowering leadership, we examine how CEOs in SMEs lead business model innovation during the process of internationalization. Building on eight cases of Japanese manufacturing SMEs, we develop a theoretical framework pointing to two different patterns in the articulation between CEO leadership style and business model innovation. We show that small-scale business model innovation led by directive leadership results in a timelier foreign market entry. However, in order to increase international sales, large-scale business model innovation is required. This is facilitated by an empowering leadership style of the CEO.

Introduction

Business model innovation (BMI), which Amit and Zott (2010, p. 2) define as the process of “designing a new, or modifying the firm’s extant activity system”, is considered a positive contribution to performance (Zott and Amit, 2007). Recognising BMI’s distinctiveness when compared with product or process innovation (Bucherer et al., 2012; Damanpour, 2010; Teece, 2010), scholars have investigated how established firms reconfigure their business models (Bocken and Geradts, 2020; Snihur and Wiklund, 2019), or how new ventures and start-ups develop innovative business models from the outset (Bocken and Snihur, 2020; Colovic and Schruoffenegger, 2021; Thompson and McMillan, 2010; Zott and Amit, 2007). Research has pointed to contingencies and factors leading to BMI, which can be external, such as environmental turbulence or technological evolution (Teece, 2018), or internal, such as institutional, organizational, or strategic (Bocken and Geradts, 2020). Because it involves dealing with different customers and different institutional conditions, as well as complying with different sets of rules and regulations, internationalization has arguably been identified as a critical moment in a firm’s existence, prompting firms to engage in BMI (Onetti et al., 2012; Rask, 2014). According to Bohnsack et al. (2020), the internationalization decision itself might depend on whether a firm can leverage advantages related to its business model to create and capture value in foreign markets.

When small-and-medium-sized enterprises (SMEs) with a long history of operating within their national borders decide to embark on an internationalization journey, they need to make changes to their existing business model, or develop an entirely new one (Amit and Zott, 2010). Whilst changes to the business model are certainly one of the key transformational processes SMEs undertake during internationalization (Ahokangas et al., 2014; Child et al., 2017), their leader (owner-manager or CEO) plays a central role in spurring and orchestrating such transformations (Chesbrough, 2010; Lindgren, 2012; Stieglitz and Foss, 2015). Indeed, a key issue is how the CEO leads BMI, which is closely related to that CEO’s leadership style, defined as leader behaviours with respect to decision-making patterns, the engagement of followers, and the degree of autonomy afforded to the latter (Martin et al., 2013). Consequently, SMEs

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pursuing BMI face two fundamental types of tension: the extent of business model innovation required for the process and the way in which the CEO leads this innovation. Yet, despite the importance of such issues, there is a lack of theorizing about the ways in which CEOs of SMEs articulate their leadership style and BMI during the process of firm internationalization. To address these theoretical gaps, we ask the following research question: *how do SME CEOs lead BMI during the process of internationalization?* Specifically, we examine how business leaders approach BMI, and how the characteristics of their leadership style influence this process and the ensuing internationalization outcomes, consisting of the timing of entry – that is, the time span between the internationalization decision and the actual market entry – and the increase in international sales over time.

To answer our research question, we conducted multiple case studies for the purpose of inductive theory building (Eisenhardt and Graebner, 2007). Inductive theory building is appropriate when addressing “how” and “why” questions in poorly explored research areas (Edmondson and McManus, 2007; Welch et al., 2011), which is the case in our research. We chose Japan as an appropriate setting for our study. Japan has experienced substantial industry relocation of large firms’ subcontracting systems to lower-cost countries, which has resulted in numerous traditional suppliers – SMEs – either terminating their operations or downsizing (Colovic, 2012; Ota City Industrial Promotion Organization, 2001; Schaeede, 2007), as well as exploiting the occasion to venture outside of the country’s borders (Schaeede, 2007). We focus on relatively old SMEs that typically feature established business models (Chesbrough, 2010), and which have initiated internationalization at a later stage in their existence. We expect BMI and leadership style to play a particularly significant role in the internationalization of such firms. We study traditional manufacturing SMEs, which, according to Japanese Law, have no more than 300 employees and a turnover of no more than 300 million yen.

We contribute to the academic literature by taking a cross-disciplinary approach, combining insights from strategy and organizational behaviour literature and inductive theory building, to develop a theoretical model relative to BMI and the leadership style of SMEs that are in the process of internationalization. In so doing, we advance understanding of the crucial, yet complex impact of leadership on BMI.

Business model innovation, leadership, and SME internationalization

Following Bingham and Eisenhardt (2011), our investigation draws inspiration from several insights in the literature, pointing to the actionable constructs and phenomena that need to be studied in greater detail. The insights from the literature serve the purpose of framing our study in order to avoid going into too many different directions, which would lead to empirical findings being thinly spread out over a number of constructs and dimensions, jeopardizing their clarity and the resulting knowledge advancement. With the aim to contribute to theory with inductive theory building, we therefore proceed like Bingham and Eisenhardt (2011) and draw on prior theoretical insights. We begin with a discussion of business models, BMI, and their relationship to SMEs, and move to a discussion of leadership styles, and in particular, those theoretical categories that can inform our research.

Business models, business model innovation, and SMEs

A business model represents the way a company creates, captures, and delivers value (Teece, 2010). It reflects a firm’s strategy (Casadesus-Masanell and Ricart, 2010), depicting its logic, and the way it operates and creates value for its stakeholders (Baden-Fuller et al., 2010; Battistella et al., 2017; DaSilva and Trkman, 2014). Business models can be regarded in different ways, ranging from cognitive devices or recipes (Baden-Fuller and Mangematin, 2013; Baden-Fuller and Morgan, 2010) to a configuration of several categories or components (Demil and Lecocq, 2010; Demil et al., 2015; Zott et al., 2011). In this research we take the latter, configurational approach to business models, and consider them as consisting of a set of components or building blocks, including value proposition, cost/revenue structure, key resources and competences, target segments, the organization of activities, and the articulations between them (Zott et al., 2011; Foss and Saebi, 2017).

Business model innovation, or the process of “designing a new, or modifying the firm’s extant activity system” (Amit and Zott, 2010, p. 2), differs from product or process innovation (Teece, 2010) in that it involves changes to the firm’s operations, in other words, its activity system. We embrace the definition proposed by Amit and Zott (2010), who argue that business model innovation refers to (i) incremental and radical changes to an existing business model or (ii) the development of a fundamentally different business model. This definition is also consistent with Casadesus-Masanell and Zhu (2013), who see BMI as “the search for new logics of the firm and new ways to create and capture value for its stakeholders; it focuses primarily on finding new ways to generate revenues and define value propositions for customers, suppliers, and partners” (p. 464). Since our investigation deals with the changes to a firm’s existing business model, it therefore focuses on the business model that is *new to the firm*, and not necessarily new to the industry.

BMI occurs for different reasons. In some cases, a firm engages in BMI because of signals to change that it has received from its environment. Other cases involve following competitors’ moves, exploiting new opportunities, satisfying new needs, or changing customer preferences (Demil and Lecocq, 2010; Johnson et al., 2008; Schneider and Spieth, 2013; Teece, 2010, 2018). Internal factors can also trigger BMI, such as technological innovation (Calia et al., 2007), the development of new capabilities (Seelos and Mair, 2007), and strategic agility (Doz and Kosonen, 2010). However, BMI can also involve having to overcome various barriers (Battistella et al., 2017; Bouchikhi and Kimberley, 2003; Chesbrough, 2010), including: (i) the underlying configuration of assets, processes, and organizational routines, as BMI requires changes to firm operations and management, and is therefore slow, costly, and risky; and (ii) cognitive barriers, as BMI entails overcoming the “dominant logic” (Chesbrough and Rosenbloom, 2002). Strategic choices made in the past create path dependencies that influence adaptations to the business model (Saebi et al., 2017). Chesbrough (2010) thus points to the existing business model in an organization, tied to the dominant logic (Prahalad and Bettis, 1995), as a strong obstacle to BMI. In this respect, we have only a partial understanding of how firms having long operated from a well-rooted business model then

undertake BMI (Chesbrough, 2010).

The scope of BMI can range from a single component to the entire model, in addition to the architecture linking different components together (Foss and Saebi, 2017). Small-scale changes to the business model may involve one or two components or building blocks, whereas large-scale reconfiguration results in a major overhaul, involving a greater number of components and the architecture linking them (Foss and Saebi, 2017). Considering that there are five components in Zott et al.'s (2011) definition of business models, large-scale innovation of the business model transpires when there are substantial changes to three or more of them. When environmental conditions evolve, they prompt vicious circles between or within the business model components, causing small-scale changes to the model to be insufficient to restore performance, and requiring substantial changes instead (Demil and Lecocq, 2010). The success of such an upheaval depends substantially on the leader's ability to introduce, pursue, and facilitate change (Ahokangas et al., 2014; Smith et al., 2010). This requires both deep knowledge and understanding of the firm's business model, and the ability to guide its reconfiguration.

Academic research has emphasized the fundamental role leaders play in BMI (Chesbrough, 2007, 2010; Stieglitz and Foss, 2015; Snihur and Zott, 2020) for they need to communicate their vision, lead strategic change, and implement the new, innovative business model (Chesbrough, 2010). Yet according to Chesbrough (2007), many organizations suffer from a "business model innovation leadership gap" (p. 14). That is, in many organizations, it is unclear who is responsible for leading BMI. To a great extent, this dilemma is avoided in SMEs, especially those that are family-owned, in which the CEOs are ideally suited to the task, even more so if they own the business (Chesbrough, 2010).

In SMEs, the CEO, or a small number of key decision makers, typically make decisions about BMI (Chesbrough, 2010; Child et al., 2017; Lindgren, 2012). This is notably the case when SMEs internationalize. Few studies have examined the issue of SME BMI in the context of internationalization. Onetti et al. (2012) argue that different conditions, i.e., institutional or competitive, in foreign markets may necessitate changes to the business models SMEs adopt for their domestic markets. Similarly, Landau et al. (2016) contend that business models need adjustment according to foreign market conditions. Arguing that the business models SMEs adopt in international markets are not necessarily the same as those they adopt in their domestic markets, Child et al. (2017) conducted a multi-country study on BMI and SME internationalization. Although these authors acknowledge the importance of key decision makers (owner-managers or CEOs) in SME internationalization in the development of international business models, they leave the leadership style of the CEO unaccounted for. Yet, in small businesses, how CEOs go about leading BMI is of crucial importance (Chesbrough, 2010; Snihur and Zott, 2020), and the extent to which their leadership enhances or hinders BMI can be expected to have significant impact on performance.

SME leadership styles

Drawing on modern leadership theory, which is based on the general principles of contingency and situation (Blanchard et al., 1985; Fiedler, 1967; Fiedler and Garcia, 1987), and which proposes that the leadership style be flexible, depending on the environment, the circumstances, the followers, and the task, we consider leadership as a vector of company innovation and adaptation in uncertain, turbulent environments. Leadership has two main functions: to communicate a vision, and to engage followers and other stakeholders in accomplishing that vision (Gupta et al., 2004).

Martin et al. (2013) define leadership style as leader behaviours respective to (i) decision-making patterns, (ii) the engagement of followers, and (iii) the degree of autonomy afforded to the latter. These three behavioural traits are the manifestations of a leadership style and, like the examination of the business model components in the case of BMI, these behavioural traits are used to analyse leadership style. Research in leadership style has identified different, sometimes opposing styles, thus generating proposals of differing categories, and identifying numerous styles. However, according to Hmieleski and Ensley (2007) and Lorinkova et al. (2013), directive and empowering leadership styles are fundamental, distinct, and contrasting, on which there is a consensus in the literature. These styles focus on leaders' behaviour, contrary to, for example, transactional and transformational leadership, which denote the transactional relationships between both leader and followers, and the attendant rewards system (Martin et al., 2013). The great number of leadership styles necessitates the careful framing of studies involving leadership in order to maintain clarity of focus in each study. Consequently, in this research we follow Hmieleski and Ensley (2007) and Lorinkova et al. (2013) in building our investigation on the widely accepted categorization of directive versus empowering leadership. The underlying assumption is that leadership style of any leader can be categorized into one of these basic, distinctive leadership types, by analysing the three distinctive features of leadership identified above – decision-making patterns, engagement of followers, and the degree of autonomy afforded to the latter.

Empowering leadership comprises participative goal-setting, followers' own independent behaviour, the encouragement of initiative and self-leadership, and opportunity thinking (Pearce et al., 2003). It focuses on giving employees the power to make independent decisions about how to achieve desired outcomes (Spreitzer, 1995). It involves sharing power with subordinates or followers, encouraging them to express their opinions, instilling teamwork and information sharing, and increasing motivation and self-confidence (Chen et al., 2011; Lorinkova et al., 2013). This type of leadership has proven successful in situations requiring motivated, committed followers, especially when a firm is competing in dynamic environments (Ensley et al., 2003). The role of empowering leadership is to enable rather than guide organizational effectiveness through turbulent, dynamic environments (Marion and Uhl-Bien, 2001), extending leadership across the firm (Pearce, 2004). Zhang and Bartol (2010) have demonstrated that empowering leadership stimulates employee creativity. However, despite the obvious advantages of this type of leadership, it has several drawbacks, such as: (i) the excessive time and resources required to gather and analyse information, (ii) the dysfunctional number of innovative initiatives, reducing efficiency and wasting resources, (iii) the attempt to exploit too many opportunities, and (iv) lack of focus (Hmieleski and Ensley, 2007).

Table 1
Key features of the SMEs investigated.

Firm	Alpha	Beta	Gamma	Delta	Epsilon	Zeta	Sigma	Omega
Location	Shizuoka prefecture	Greater Tokyo metropolitan area	Greater Tokyo metropolitan area	Greater Tokyo metropolitan area	Shizuoka prefecture	Greater Tokyo metropolitan area	Shizuoka prefecture	Greater Tokyo metropolitan area
Activity	precision engineering, mechanics	mechanics, metal parts, precision engineering	mechanics, metal parts	precision engineering, mechanics	electronics, mechanics	automotive, mechanics	mechanics, metal parts	mechanics, metal parts
Number of employees	40	32	27	38	52	47	39	42
Year of establishment	1949	1953	1961	1959	1970	1966	1961	1973
Year of internationalization	2001	2004	2006	2002	2003	2006	2000	2002

Directive leadership contrasts with empowering leadership. It involves leaders ordering followers to carry out assignments and pursue non-negotiable goals (Pearce et al., 2003). It is associated with a powerful leader giving clear directions to followers (Lorinkova et al., 2013). Followers have little freedom in their decisions and actions; instead, they are reprimanded if they refuse or fail to pursue the objectives set by the leader (Hmieleski and Ensley, 2007). Directive leadership also involves providing followers with specific guidance regarding goals, how they should be achieved, and their expected performance outcomes (Martin et al., 2013). Because it relies on orders and reprimands, directive leadership is thought to relate negatively to employee motivation, creativity, and innovativeness, prompting negative emotions in followers and a generally unpleasant work atmosphere. Yet directive leadership can have positive effects. It can make task accomplishment easier by providing followers with specific instructions (Kahai et al., 2004). According to Mumford et al. (2001), directive leadership can facilitate the creation of a shared, collective vision in followers, leading to unified teams. It can also speed up the decision process and increase efficiency, which is necessary when competing in uncertain, dynamic environments (Eisenhardt, 1989a). Furthermore, even though they usually make their decisions alone, directive leaders can still call upon their followers' knowledge to do so (Hmieleski and Ensley, 2007), which suggests that directive leaders should not necessarily be considered "lone riders" who neglect the skills and knowledge of their subordinates. Burke et al. (2006) proposed follower "readiness" – defined as "the extent to which a follower has the ability and willingness to accomplish a specific task" (Hersey and Blanchard, 1988, p. 174) – as an important situational factor influencing the appropriateness of a leadership style. The idea is that followers' readiness to respond to empowering leadership depends on their capabilities (Burke et al., 2006).

In South East and East Asian countries, including Japan, directive leadership is prominent and widespread (House et al., 2004). Thus, the major cultural traits of Japan are collectivism and hierarchical, paternalistic relationships (Ahmadian and Robinson, 2001). In high power distance cultures like Asia, people tend to prefer paternalistic leadership (Hofstede et al., 2010; Hwang et al., 2015). Chinese leaders typically adopt a command-and-control, hierarchical leadership style (Huang et al., 2015). Pellegrini and Scandura (2008) showed that authoritarian, top-down leadership is prevalent in China and other Eastern countries. Studying leadership in Japan, Fukushima and Spicer (2007) identified directive leadership as a popular leadership style. Looking specifically at Japan's SMEs, Whittaker (1997) showed evidence from prior research of its directive, paternalistic style. Nevertheless, Asian countries also value consensus and harmony (Chen et al., 2017), as well as collectivism (Hofstede et al., 2010; Hwang et al., 2015), suggesting that empowering leadership, which stresses the involvement of followers in decision-making, could also be found in these countries.

In summary, the literature on business models stresses that BMI, as a relatively recent subject of academic enquiry (Foss and Saebi, 2017; Snihur and Wiklund, 2019), requires further investigation, particularly of SMEs. Significantly, whilst CEO leadership styles have consistently attracted interest from scholars, they have rarely studied leadership and business models in conjunction. Even so, several scholars have emphasized the fact that leadership issues are closely related to BMI, and that its success depends on leadership skills (Chesbrough, 2007, 2010; Lindgren, 2012; Stieglitz and Foss, 2015). To bridge these theoretical gaps, therefore, we analyse in this study how leaders drive BMI, and how their leadership skills influence this process in late-internationalizing SMEs.

Table 2
Interviews and other data sources.

Company	Interviews	Other data sources
Alpha	CEO, manager, engineer, worker (4 interviews)	Observations on company premises, guided visits of the factory, company brochure, promotional material, company website content, published interviews of the CEO, statistics and other information provided by the local industry office (public institution providing support to industrial firms)
Beta	CEO, senior manager, manager (3 interviews)	Observations on company premises, informal discussion with the CEO at a local event, guided visits of the factory, company website content, company brochures and other material provided by the company, information provided by the local industry office (public institution providing support to industrial firms)
Gamma	CEO, engineer–manager, worker (3 interviews)	Observations on company premises, guided visits of the factory, brochures and other published information supplied by the company, company website content, information provided by the local industry office (public institution providing support to industrial firms)
Delta	CEO, manager, worker (3 interviews)	Observations on company premises, guided visits of the factory, brochures and other published information supplied by the company, company website content, information provided by the local industry office (public institution providing support to industrial firms), video interview of the CEO posted on social media
Epsilon	CEO, manager, worker, worker (4 interviews)	Observations on company premises, guided visits of the factory, brochures and other published information supplied by the company, information provided by the local industry office (public institution providing support to industrial firms), published material on the company (local news magazine featuring town factories)
Zeta	CEO, manager, worker (3 interviews)	Observations on company premises, guided visits of the factory, brochures and other published information supplied by the company, information provided by the local industry office (public institution providing support to industrial firms)
Sigma	CEO, manager, engineer (3 interviews)	Observations on company premises, guided visits of the factory, brochures and other published information supplied by the company, information provided by the local industry office (public institution providing support to industrial firms), meeting at an industry information event
Omega	CEO, manager, worker (3 interviews)	Observations on company premises, guided visits of the factory, brochures and other published information supplied by the company, information provided by the local industry office (public institution providing support to industrial firms), recorded interview of the CEO published by a local public institution, video material about the company factory, posted on the municipality's promotion site

Method and data

Our research aims to contribute to theory by filling the gaps discussed above. In this vein, we designed an inductive theory-building approach based on multiple case studies. Such an approach is suited for in-depth research of poorly understood phenomena (Eisenhardt and Graebner, 2007).

We conducted the case studies in two industrial regions in Japan. Japan is an appropriate setting for our investigation for two reasons. First, Japan has a large number of SMEs, particularly in manufacturing, concentrated in specific areas of the country (Japanese Small Business Research Institute, 1999; Okamoto, 2009). Second, Japanese industry has been severely affected by outsourcing to South-East Asia and China since the late 1990s and early 2000s, and this has created a situation in which Japan's manufacturing SMEs needed to look for business opportunities abroad (Schaeede, 2007). Such SMEs had worked for large Japanese firms as subcontractors (Asanuma, 1989; Aoki and Dore, 1994; Gerlach, 1992; Itami, 1998; Whittaker, 1997). They were not particularly prone to internationalizing, except for the first-tier suppliers who followed their clients in their international moves, and in which large client firms frequently had ownership stakes (Sako and Helper, 1998). In this paper, we are not investigating those firms, but rather the SMEs at the bottom of the subcontracting pyramid, which diverge substantially from the theorized image of the Japanese firm (Aoki, 1988). These SMEs also differ significantly from well-documented first and second-tier suppliers to large firms (Gerlach, 1992; Sako and Helper, 1998). They are usually family-owned, and are characterized by a strong entanglement between the business and the owner's private life, forming one sphere of life together (Kiyonari, 1990), where a firm is a part of the owner's very identity and self-esteem. As between founders and their firms, Japan's SME owner-CEOs have a strong psychological attachment to their firms, which results in the owners' making a strong imprint on the firm and shaping its strategic decisions (Garg, 2013). This phenomenon is surely emblematic of the fact that Japan's "ordinary" small-sized firms, those not owned by large companies, are quite different from their larger counterparts. Indeed, although local knowledge (e.g., Kiyonari, 1990; Sato, 1981; Seki, 1994) about their specificities is commendable, the bulk of international scholarly examination of these firms has focused on their role in the subcontracting system, leading to a very partial understanding of them.

Our design applies replication logic, whereby each case confirms or invalidates the inferences from other cases (Yin, 2013). Multiple case studies have an advantage over single-case studies in that they provide a stronger base for theory building (Yin, 2013).

Table 3
Business model innovation in case companies at the early stage of internationalization.

Company	Nature of the BMI	Illustrative quotes
Alpha	Large-scale Substantial changes to more than two components of the BM	"We changed many things. We created an export department. We established a partnership with a company that had already some business abroad, and they enabled us to get to dealers in Europe, in Italy and Germany. We also developed a joint offer for these markets, and we marketed it as high-quality. Stressing the 'made in Japan.' And we were less active locally for some time, we focused on the foreign market, instead of knocking at the doors of big firms in Japan." (Manager) "For me, it was quite clear that we had to rethink everything. We did not change the industry or something like that, but apart from that, we changed more or less everything about our business." (CEO)
Beta	Small-scale Changes to one or two components of the BM	"We went there to a fair, with these parts we are making. And that's how it started." (CEO) "We were just selling our parts abroad to a few clients. The selling department took care of the administrative side of exports. That was about it really." (Manager)
Gamma	Small-scale Changes to one or two components of the BM	"At that time, we wanted to get into Europe. We found a company that agreed to represent us in Germany." (CEO) "We found this company to represent us, and that was it. We didn't change our products or anything, we continued our business as usual." (Worker)
Delta	Large-scale Substantial changes to more than two components of the BM	"The boss decided to start making these new parts. We first had to make the molds, so we brought on board a man we knew, he has special skills in that area. He used to work for a local factory we work with, but had retired. So, the boss called him and asked him to join us part time. After we made the molds, we started making the parts. Then the boss went to fairs in Europe and North America to show these things to producers there. The first deals were made rather quickly, we didn't really expect that. It started with a German firm, then an Italian. Actually, it turned out that our expertise is not very common. Precision gear is hard to find apparently." (Worker)
Epsilon	Small-scale Changes to one or two components of the BM	"We found a client in Seattle and started selling our products. That's how it started for us, the exports." (CEO) "Obviously, the clients were new. One of the first that we found was in Seattle. And we had to ship the merchandise there, so we had to organize everything related to shipping, customs and tariffs and so on. It was mostly that that was new." (Worker)
Zeta	Large-scale Substantial changes to more than two components of the BM	"We discussed for long hours, we spent days and days thinking about how to organize our business and how to do. And we put many ideas on paper, and started making changes. We are still the same company, but our way of doing business has changed entirely." (CEO)
Sigma	Small-scale Changes to one or two components of the BM	"Well, we had new clients, new sales. We had to deal with these new clients, new orders. It's about selling your products to new clients." (CEO) "We became an exporter, that's it." (Manager)
Omega	Small-scale Changes to one or two components of the BM	"Actually, the change came some time before we started exporting. It's when the new boss came, our old boss's daughter. It was the change in the mindset. But, I wouldn't say that the fact of going international changed our business radically, not at the beginning anyway." (Manager) "The new boss said we could sell some of our products abroad. And she was right. We found clients abroad and we sold them our products." (Worker)

Multiple cases allow us to explore research questions more broadly, lending themselves to theoretical elaboration (Eisenhardt and Graebner, 2007).

We identified the cases for study by applying theoretical sampling, where cases are chosen for their potential to contribute to emerging theory. We first delineated the geographical areas in which we sampled companies – the greater Tokyo metropolitan area and the Shizuoka prefecture. We chose those areas because they concentrate a great number of SMEs operating in manufacturing industries, such as general machinery, electrical machinery, precision engineering, and transport equipment, which are four of the leading exporting industries in Japan (Ogawa and Tokutsu, 2015). Limiting the study to specific areas allows us to “keep environmental and geopolitical influences constant” (Snihur and Zott, 2020, p. 557). Moreover, as our sampled firms operate in a small number of industries, industry-level influences can also be considered constant.

Our theoretical sampling procedure resulted in a sample composed of eight SMEs, which falls in the range of between four and 10 cases recommended by Eisenhardt (1989b), and deploying a case study approach (Snihur and Zott, 2020) to studies of business model innovation in SMEs. Five of the SMEs are located in the greater Tokyo Metropolitan area, and three are in the Shizuoka prefecture.

As part of our theoretical sampling procedure, we identified several criteria that we used to select the companies. We were looking for older rather than new SMEs. The companies needed to be late internationalizers who had accumulated some international experience. We were also purposefully seeking to include female-led SMEs, in order to eliminate any gender-related bias. One of our criteria was also the family ownership of SMEs, because, according to Chesbrough (2010), any ambiguity as to who is leading BMI is avoided in such firms. Table 1 presents the characteristics of the sample. When selecting the companies, we refrained from investigating whether the leadership style was directive or empowering *a priori*, or whether the companies innovated their business model slightly or substantially, although, admittedly, these considerations were very important for theory development. Thus, while we adopted some criteria before making contacts with companies (such as geographical area, industry, family ownership,

Table 4
Leadership style of the CEO in case companies at the early stage of internationalization.

Company	Leadership style of the CEO	Illustrative quotes
Alpha	Empowering Involving followers in decision-making, engagement of followers by stimulating initiatives, high degree of autonomy given to followers	“For instance, I suggested to the boss that we could try to develop a new product for foreign markets.” (Engineer). “My way of leading is based on involving managers, engineers in the decisions. I like to make use of everyone’s competencies and skills. And experience too.” (CEO) “We can suggest things, we can also work as a team without the boss checking on us all the time.” (Worker)
Beta	Directive CEO’s lone decision-making, directives given to followers, low degree of autonomy given to followers	“I remember that someone dared say something to the boss about this going abroad. He got so angry that afterwards nobody said anything. It was like that with the boss.” (Manager) “This was an important decision, and of course, I had to make it. [...] Yes, only I.” (CEO)
Gamma	Directive CEO’s lone decision-making, directives given to followers, low degree of autonomy given to followers	“When she said that we were going international, there was such determination in her voice that I understood that her decisions couldn’t and shouldn’t be questioned. This was a bit frightening, but it also gave me confidence somehow. I said to myself - if she is so sure we can make it, then we probably can.” (Worker)
Delta	Directive CEO’s lone decision-making, directives given to followers, low degree of autonomy given to followers	“It was very top-down, going international and all that.” (Worker) “I remember discussing it at home with my family. But not with the boss. We commented on the decision among ourselves, when the boss would not hear us, but kept silent when he was there. We didn’t want to get the boss angry.” (Manager)
Epsilon	Directive CEO’s lone decision-making, directives given to followers, low degree of autonomy given to followers	“Sometimes we were quite certain that we were not going to make it, but we couldn’t say anything. Because if we did, the boss would get angry. He has a strong character.” (Manager) “The boss told us one day that he decided we were going abroad. Everyone said ‘I understand.’” (Worker) “When you want to be efficient, you have to assume the decisions. I decided about that by myself. I don’t think it’s unusual. I think most of my peers would have done like me.” (CEO)
Zeta	Empowering Involving followers in decision-making, engagement of followers by stimulating initiatives, high degree of autonomy given to followers	“We discuss together, we put ideas on the table, we give our opinions. Ultimately, the boss decides with his team, but it is based on what everyone said. He listens carefully to what we are saying. And we can always come to him with our ideas. That’s why I like the boss.” (Manager)
Sigma	Directive CEO’s lone decision-making, directives given to followers, low degree of autonomy given to followers	“There’s not much discussion with the boss. He comes in, says what we have to do. He doesn’t always tell us exactly how to do it, because he doesn’t have a precise idea about that all the time, but it’s clear that there will be no discussion about his decisions.” (Engineer)
Omega	Directive CEO’s lone decision-making, directives given to followers, low degree of autonomy given to followers	“The boss is the boss. She decided to try out new markets. Then we had to do what she told us.” (Worker) “She had made the decision, and I knew I should not start saying “but ...” Even if I did, she wouldn’t have listened. At that point, the only thing that mattered was to get there, and quickly.” (Manager)

		Business model innovation	
		Small-scale	Large-scale
Leadership	Directive	Small-scale business model innovation driven by directive leadership (1)	Large-scale business model innovation driven by directive leadership (2)
	Empowering	Small-scale business model innovation driven by empowering leadership (3)	Large-scale business model innovation driven by empowering leadership (4)

Fig. 1. Leadership style and business model innovation.

internationalization), the leadership style and the level of BMI undertaken were discovered during the first visits onsite, and the companies were then included in the sample if they could contribute to the theory by broadening and deepening our insights. Indeed, our aim was to have a variety of combinations of CEO leadership style/BMI in the sample. To preserve anonymity, we refer to the case companies as Alpha, Beta, Gamma, Delta, Epsilon, Zeta, Sigma, and Omega. Among the eight companies, two are owned by women, who stepped in to lead the companies created by their fathers. As the table indicates, all eight firms in the sample are more than 40 years old, and all started internationalizing after at least 20 years of exclusively domestic operations.

We collected different types of data (see Table 2). The main data source is face-to-face semi-structured interviews with owner-CEOs, senior managers, managers, engineers, and workers onsite at company premises. All interviews were conducted in Japanese, lasted between 55 and 130 min, and were recorded and fully transcribed. We present a breakdown of the interviews in Table 2. The interviews were semi-structured, which allowed flexibility while avoiding unwarranted digression. We developed an interview guide covering issues such as: company history, company business, business model, CEO leadership style, the internationalization process and its detailed history, changes to the business model, and the CEO’s leadership role in the process. The questions we asked include: What changes, if any, took place in your company, both before and during your first foreign market entry? Who made the decisions about the changes? Did you have any discussions about entering foreign markets? What did you think of your firm’s internationalization?

To limit the retrospection bias, we asked the respondents to situate themselves at the time of the company’s initial internationalization, and start telling us the internationalization story from that moment onward. Because we interviewed at least three respondents from each company, we were able to establish whether the answers about the key events, e.g., the CEO’s leadership and the BMI, diverge between the respondents. If we had doubts relative to diverging responses, we went through the questions again and asked sub-questions to dig up more details and clarify the points of obscurity and divergence. We reached interview saturation when we began obtaining few new answers to our questions (in terms of the theoretical content), and therefore felt that we were not obtaining any significant new information for our investigation. Public officials working for industry support organizations attended some of our interviews with SMEs. This allowed us to discuss the company’s situation and the collected data with these individuals, who have deep knowledge of the local industries and SMEs.

Observations were an additional source of data. As all interviews were conducted on the company premises, we were able to observe communications between the employees, and we were offered guided factory visits with explanations about different machines, manufactured parts, and production organization. We also collected secondary data in the form of documents provided by the SMEs and the local industry support organizations, such as public relations material, brochures or newspaper articles, and company website content. This data provided general information about the companies and, to some extent, about their internationalization pathways.

We developed a coding structure for coding the interviews. We used the codes to condense the data as a first step. We asked a researcher who had not taken part in the data collection to code a set of eight interviews, one from each case. We then calculated the inter-coder reliability ratio, which was 92%. The coded material was then sorted into conceptual matrices, that is, tables that allowed horizontal and vertical reading of the data. We cross-checked the data and the codes several times. In addition to data coding and sorting, we wrote a short narrative for each of the cases, tracing the company’s internationalization, particularly emphasizing BMI and

		Business model innovation	
		Small-scale	Large-scale
Leadership	Directive	Small-scale BMI/directive leadership (1) Beta, Gamma, Epsilon, Sigma, Omega	Large-scale BMI/directive leadership (2) Delta
	Empowering	Small-scale BMI/empowering leadership (3)	Large-scale BMI/empowering leadership (4) Alpha, Zeta

Fig. 2. Categorization of case companies in terms of BMI and leadership style in the early stage of internationalization.

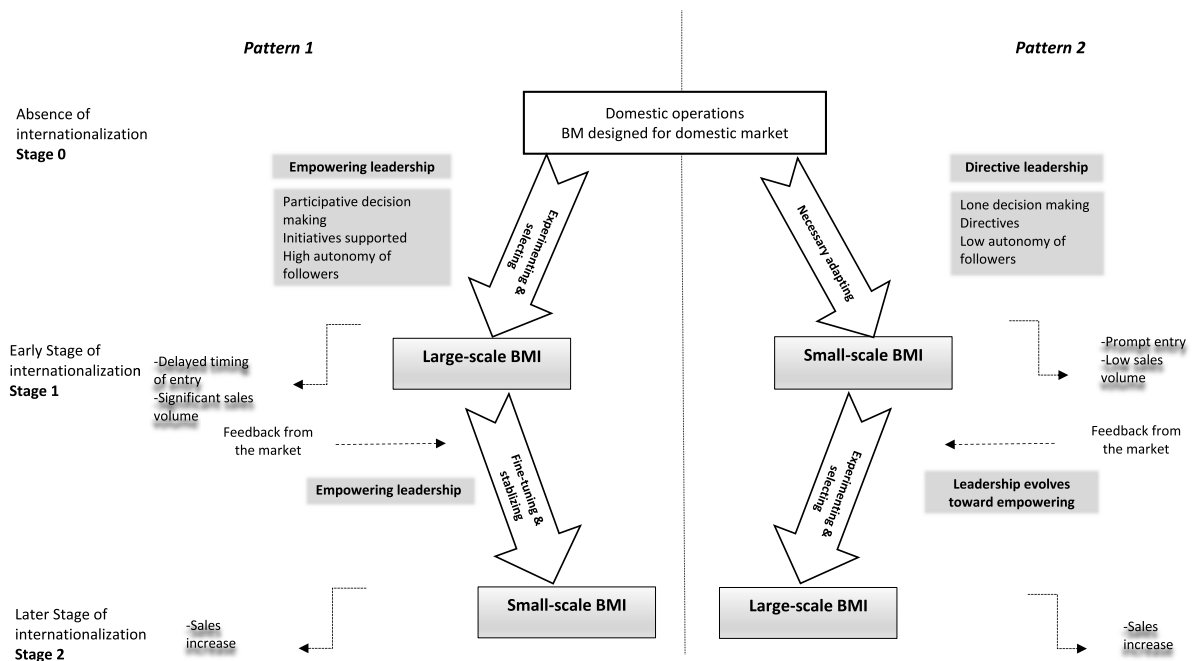


Fig. 3. BMI and CEO leadership style in the internationalization process of SMEs: an emergent theoretical framework.

the CEO leadership role in this process. After conducting a within-case analysis for each case, we conducted a cross-case comparison to identify patterns, as well as any points of divergence between the cases. This process allowed two dominant patterns to emerge in our case studies. We therefore consider these patterns as central, and those diverging as peripheral. The central patterns will constitute the main foundation for theory building, whereas the peripheral patterns will, to a certain extent, allow us to deepen the theory and reveal the boundary conditions relative to the main relationships within the emerging theoretical model.

Internationalization in SMEs: BMI and CEO leadership

Late internationalizing SMEs approach foreign markets with differing degrees of BMI. For the purpose of theory development, we will classify the different levels of BMI undertaken by case companies into two opposite categories – large-scale and small-scale BMI, based on the definition of business models proposed by Zott et al. (2011). While we retain these two opposite categories, admittedly, there are differences within each of the categories. Thus, among the companies undertaking large-scale BMI, BMI is more substantial in some companies than in others. The leadership style of the CEO is the second central construct in our research. Building on the insights from the literature indicating that directive and empowering leadership styles are two basic, distinctive styles on which there is consensus (Lorinkova et al., 2013), we will endeavour to characterize the leadership style of the CEO of the case companies within one of these distinctive categories, based on the three behavioural traits of leadership: (i) decision-making patterns, (ii) engagement of followers, and (iii) the degree of autonomy afforded to the latter. Tables 3 and 4 summarize the characterization of BMI and the leadership style of our case companies at the time they started their internationalization.

Identifying the BMI and the CEO's leadership style at the early stage of internationalization allowed us to categorize the patterns of BMI/leadership style in the companies in our sample. To depict this categorization visually, we developed a 2×2 matrix, showing the distinction between both small-scale and large-scale BMI on the horizontal axis, and directive and empowering leadership on the vertical axis.

Fig. 1 depicts four combinations of BMI and leadership style. Box 1 refers to small-scale BMI (one or two of its components) led by the CEO's directive leadership. Box 2 refers to large-scale BMI (involving three or more components and the architecture linking them) led by directive leadership. In the lower part of the figure, empowering leadership drives small-scale (box 3) or large-scale (box 4) BMI.

Based on the analysis of the data relative to the CEO leadership style and the BMI undertaken by the company in the initial stage of internationalization, we positioned the companies in the matrix, as shown in Fig. 2.

As this figure shows, the most representative is configuration 1, showing directive leadership and small-scale BMI, followed by configuration 4, showing empowering leadership and large-scale BMI. While we observed one case of large-scale BMI and directive leadership in the early stage of the internationalization process, none of the firms made small-scale changes to their business model when led by empowering leadership. It thus appears that there are two main patterns in our case companies. We build on these two central patterns and examine their evolution throughout the internationalization process to develop an emerging theoretical framework, depicted in Fig. 3. We will discuss two cases, one from each of the central patterns, in greater detail to reveal the mechanisms at

Table 5

Summary of internationalization patterns relative to BMI and CEO leadership of companies Zeta (Pattern 1), and Sigma and Omega (Pattern 2).

Company	Early stage of internationalization	Illustrative quotes	Later stage of internationalization	Illustrative quotes
<i>Pattern 1</i>				
Zeta	Large-scale BMI guided by empowering leadership of the CEO. The company started internationalization in 2006, after a long preparatory period during which several options were explored.	<p>“It took a long time, because we wanted to make sure to have the right offer. We were trying out different options. We implemented a new organization too and hired people who knew how to do business abroad. The boss spent long hours preparing everything with a team of people.” (Manager)</p> <p>“For me it was important that we make it, so I asked the team to work hard on redesigning everything. Automotive industry requires expertise and you can find it in many places nowadays, so we wanted to have the right products that would interest car makers.” (CEO)</p>	Small-scale BMI led by empowering leadership of the CEO. The changes to the business model involved fine-tuning based on the feedback from the market.	<p>“We got there finally, in 2006, after long preparations. And it went quite well, we got positive feedback. We managed to sell several of our parts, in particular in the automotive industry. And the clients seemed happy with our products. So, they placed more orders. We were proud of our success.” (Manager)</p> <p>“With these orders coming from abroad, we almost compensated for the loss of orders in Japan. The next step was to be ready to produce more. So, we bought a new machine and put some rooms that we had shut back into operation. So, the changes were mainly about increasing the capacity.” (CEO)</p> <p>“The boss has always involved other members of the company in the decisions. He is a remarkable leader, we all respect him deeply.” (Worker)</p>
<i>Pattern 2</i>				
Sigma	Small-scale BMI led by directive leadership of the CEO. The company internationalized to Asian countries in 2000.	<p>“The boss got this idea and in a couple of months, we started selling to a foreign-owned company in Malaysia.” (Engineer)</p> <p>“I did not discuss it with my people. I knew it was the right thing to do.” (CEO)</p>	Large-scale BMI led by the CEO whose style evolved toward empowering leadership (including the followers in the decision-making process, stimulating initiatives, and affording more autonomy to followers).	<p>“He was more open to discussion when we needed to increase our sales there.” (Engineer)</p> <p>“He told us that if we had ideas, we could come to him and present our ideas.” (Manager)</p> <p>“At that time, it was clear that to sell more, we had to change our business to a greater extent. We did not have the right people for business development. We did not have an export department. We did not have many things. So, that started to change, we hired people, we changed the structure, I asked everyone to put their effort to it. And bit by bit we were turning into an international company.” (CEO)</p>
Omega	Small-scale BMI led by directive leadership of the CEO. The company internationalized to North America in 2002.	<p>“When the old boss’ daughter took over, she said we had to go international. She studied in America, so she speaks the language.” (Worker)</p> <p>“She found some contacts there and that’s how it started. It was very quick actually.” (Worker)</p> <p>“She is a woman, but she has a strong head, like her father.” (Manager)</p>	Large-scale BMI led by the CEO whose style evolved toward empowering leadership (including the followers in the decision-making process, stimulating initiatives, and affording more autonomy to followers).	<p>“Clients there were looking for some customized things. They were sending the specifications, asking if we can do it like this or like that. At first the boss partnered with some confrere companies and they helped us out to respond to these requests. But, soon she started asking us how we could do everything inside, in our company, and we told her about the equipment, about people we would need to get on board.” (Worker)</p> <p>“She started asking for opinion and for ideas.” (Manager)</p> <p>“Many changes were made, in terms of the factory, in terms of the products, the people.” (Manager)</p>

play in SMEs throughout the internationalization process.

Pattern 1. Large-scale BMI led by empowering leadership of the CEO: the case of Alpha

Alpha is a small company founded in 1949 in the Shizuoka prefecture. It was created by the current CEO's father. Having had some experience with producing metal parts, the founder started the company to supply the machine, musical instrument, and motorcycle industries. Gradually, Alpha developed skills in mechanics and precision engineering. It manufactures small parts and precision gear. As a small supplier, Alpha used to belong to the subcontracting value chains of two large players in the region; it supplied metal parts and precision gear to these companies for decades. It remained a small company, focusing on the design and manufacture of very special, small metal parts incorporated into the final products of the large players. In the 1990s, it started diversifying its clients by including those from the medical instrument industry, but it continued manufacturing precision gear. In the late 1990s, its decade-long client, knowing about the rarity of Alpha's skills, asked the company to transfer its knowledge and expertise to a factory in a South-East Asian country, with the promise that it would continue supplying the client jointly with the foreign factory. Alpha trusted its client and responded positively. It started training the technical staff of the factory in the South-East Asian country, but soon discovered that the purpose of the factory was to replace Alpha and a few other Japanese suppliers. This was a great shock and disappointment to Alpha's CEO, who decided to stop the cooperation with the foreign factory. This resulted in the termination of the tacit contract it had with its client. The CEO remembers this event with bitterness:

"It was a huge shock. We really trusted them and we really thought that we would continue working with them. And we thought that the business with this factory was a part of their plan, that we would become a higher-order supplier or something like that, and that they would do the more basic work. But, it turned out they planned to kick us out altogether. It was a betrayal! The trust was broken and the decades of cooperation thrown away." (CEO)

At the time of the termination of its contract with this major client, Alpha still had some orders within Japan, though not enough to compensate for the loss of orders from the major client. Alpha's CEO discussed the possible ways to overcome the crisis with his managers, engineers, and employees. Going international appeared quickly as one of the solutions.

"Actually, this incident with our major client gave us some confidence that this could be an option. As we were very cutting edge in our area, we were aware of what kind of things could be found elsewhere. And we were convinced that we could use our expertise to penetrate foreign markets." (CEO)

Having decided to explore the foreign market opportunities, the CEO assigned engineers and managers to work on different projects. The company was pursuing several initiatives, and the CEO discussed them with the employees. The CEO involved the employees in the decision-making process, he assigned autonomy to employees in order to pursue initiatives, and he engaged them by giving them responsibility.

"The boss's philosophy is to involve everyone. He discusses things with us, he asks us about our opinion. He is listening to what we say." (Manager)

"You should not think that he always accepts everything we suggest. It's not like that. It's more like this: he listens and then reflects on our proposals. If he is not totally convinced, he refuses. But if he is convinced, there is a good chance that your idea could be developed." (Engineer)

The design of the different offers for foreign markets required substantial change to Alpha's business model. Almost all of the components of the model had to be modified to accommodate internationalization. This, and the pursuit of several simultaneous initiatives, resulted in long preparations for entering the foreign markets. Thus, in terms of the timing of foreign market entry, it was late relative to the moment when the decision to internationalize was made, and compared to other case companies in our sample, namely, those that conducted small-scale BMI at the early internationalization stage. The CEO estimates the preparation phase as lasting around two years:

"We were working on this for a long time. It was hard to support it financially, and actually, we had to ask for a loan to be able to do it. In addition to the product offers, we had to rethink everything within the company. It is not so easy to work with foreigners. We had to hire new people, because of the language and everything. We partnered with another firm, who helped us get to dealers in Europe, Germany, and Italy. We had to do other things in the factory. We had to reduce our production staff temporarily, because we could not sustain the labour costs with our decreased orders in Japan. I asked a few companies around that had a bit more work than us if they could take some of my workers, for a few months or so. I don't like to let people down. We also partnered with another town factory close by, because they are doing precision gear too, but of a different type. We developed one offer for foreign markets with them." (CEO)

The above quote points to the large-scale BMI taking place in Alpha in view of the initial internationalization. Examined from the perspective of the configurational approach to business models distinguishing five components in the model and the articulations between them (Zott et al., 2011), Alpha made changes to the value proposition, cost/revenue structure, target segments, organization of activities, and the architecture linking these components together. To change its business model substantially, Alpha enacted mechanisms that we theorize as "experimenting and selecting" (see Fig. 3). After having pursued several initiatives (experimentation), Alpha chose the one that it judged would allow it to enter foreign markets successfully (selection). Chesbrough (2010) has identified experimentation as one of the processes through which organizations innovate their business models, along with effectuation and the process of leading change. We add selection to these processes; this refers to deciding which among the experimentation options will be

pushed forward.

Alpha entered the foreign markets of Germany and Italy almost at the same time in 2001. Like all other companies in our sample, the entry mode adopted by Alpha was exporting, which is not surprising, since exporting is the preferred entry mode for SMEs due to its low cost (Leonidou and Katsikeas, 1996) and low levels of commitment and risk (Lu and Beamish, 2006). Alpha deployed intermediated exporting inasmuch as the dealers in Germany and Italy connected the company with several clients, which were manufacturing firms looking for precision mechanics. The initial orders were not very large in volume, but because the clients were highly satisfied with Alpha's products, they increased the orders quickly, and placed new ones for precision gear. Thus, already in its early internationalization stage, Alpha's volume of sales in international markets was substantial. Then, Alpha started expanding its sales throughout Europe. In terms of its business model, the CEO and managers describe this second stage as the "adjustment" stage. There were no new large-scale changes to the business model at this stage. Alpha's goal was rather to strengthen its foreign business and stabilize its business model in this second stage of internationalization.

"All the big changes had already been made, so we just had to listen to the information we got about our products and improve our offer and the way we did business abroad." (CEO)

We designate the mechanisms taking place in this stage of internationalization as "fine-tuning", in line with Winter and Szulanski (2001) and "stabilizing". Thus, the evolution from stage 1 to stage 2 involved small-scale BMI (Fig. 3). However, overall, the company went through large-scale BMI in its internationalization process. The substantial changes to the business model also affected Alpha's domestic operations. In addition to changing the customer segments, Alpha developed partnerships with SMEs operating in the same industry to propose jointly more complete and elaborate offers to the Japanese clients. Alpha also relied on its success abroad to promote its expertise more effectively, reaching new clients in Japan.

In terms of leadership style, throughout the entire internationalization process, the CEO maintained his leadership style, namely, that of empowering leadership. The company Zeta (see Table 5 for the summary) pursued the same pattern as Alpha.

Taken together, these insights allow us to formulate our first propositions relative to CEO leadership style and BMI in late internationalizing SMEs.

P1. SME CEOs who have an empowering leadership style tend to initiate and lead large-scale BMI in order to enter foreign markets.

P2. Conducting large-scale BMI under the guidance of empowering leadership of SME CEOs will likely delay the timing of entry into foreign markets, but will facilitate an increase in sales as the internationalization unfolds.

Pattern 2. Small-scale BMI led by directive leadership: the case of Beta

The second central pattern, followed by three companies, is exemplified by Beta, a small company located in the greater Tokyo metropolitan area, about 30 km from central Tokyo. There are many small manufacturing companies in this area, also referred to locally as 'town factories'. Like Alpha, Beta produces metal parts and precision gear.

Beta was created in 1953 to serve as a small parts supplier, and has remained a small-sized, family-owned company throughout its existence. It has been led by a second-generation owner for the last 30 years.

Like many other town factories in Japan, Beta was hit by industrial relocation. German industries are highly regarded and esteemed among manufacturing SMEs in Japan, and many town factories consider German manufacturing as an example of excellence in the sector. When the CEO of Beta decided to start the company's internationalization, Germany was the first country he had in mind. Through his social network, the CEO found an agent to make exporting arrangements for Beta, thus beginning the internationalization process. Thus, like Alpha, Beta used intermediated exporting as the entry mode to foreign markets. The CEO described a solitary internationalization decision: "I made that decision and informed my workers. That's how it happened." When questioned about the solitary nature of his decision, the CEO advanced several arguments, including that the employees were not capable of evaluating such a strategic move adequately, that he was determined to avoid any questioning of his decision, which could potentially have jeopardized the foreign market entry, or at least rendered it complex, and finally, that the company aimed to proceed rapidly with internationalization. Discussing the CEO's leadership at the outset of the internationalization, a manager said:

"Someone made a comment about going abroad, saying that it would be tough or something like that. And the boss got really angry." (Manager)

The senior manager then explained:

"We weren't aware of what he was thinking and preparing. Nobody knew anything, except maybe his wife, maybe he told her. So, we just learned about it when he announced it. And everything had more or less been arranged."

In terms of the business model, only the necessary changes were made at the time. This involved in particular the organization of shipping, and the relationship with the exporting agent. Beta offered the same product on the German market as on its domestic market at the time. As the quote below illustrates, small-scale rather than large-scale BMI was taking place.

"We started selling to Germany. There was the shipping and all that, but we didn't change much our business apart from that. Not at that time." (Senior manager)

We define the mechanisms leading to the small-scale BMI of Beta as "necessary adaptations" (Fig. 3). Indeed, the adaptations were made to the business model to enable selling to the foreign market.

Beta entered the German market quickly, but it turned out that the clients were asking for a more diversified offer. The feedback coming from Germany suggested that increasing sales would be difficult to achieve without making more substantial changes within Beta. Beta's CEO, who had made the decisions about the initial internationalization alone, started discussing with Beta's managers

about possible ways forward. The quote below illustrates how the CEO's leadership style started changing.

"He called a meeting to discuss the next steps. And before the meeting, he would pop into the office and start the conversation about what we could do, how we could do it, and so on. We weren't really used to that, because we had not discussed Germany with the boss." (Senior manager)

Another manager saw a change in the CEO's behaviour as well:

"I had known the boss for a long time, and it was new to me to see him go around and discuss things, ask for an opinion, and so on. I think that he realized that he could not do it alone. That's why he started involving others." (Manager)

To sustain and develop international operations, Beta's CEO prompted more substantial changes to the business model, calling for initiatives internally and looking for partnerships with other town factories that could allow Beta to propose a more varied offer to the German market. Beta's CEO created a dedicated team to work on the project. This team included an engineer and two workers, in addition to managers. Thus, the structure of the company started to change, as well as its activities. Beta undertook different activities in view of enlarging its offer in Germany. It experimented with different options and then selected the ones it would eventually pursue. Thus, the same mechanisms of experimenting and selecting which took place in the first stage of Alpha's internationalization also took place in the second stage of Beta's internationalization. Taken together, the changes within Beta led to large-scale BMI in the later stage of internationalization. The large-scale BMI allowed Beta to increase its sales in the foreign market. The increasing involvement in internationalization and all the changes that had taken place prior to it also had consequences for Beta's operations in Japan. Specifically, Beta partnered with several SMEs located in its vicinity and this partnership consortium developed offers for the Japanese market. Even though no legal entity was created, the partnership was given a name, and a specific brochure was designed to promote it. Parallel to the growing commitment to foreign operations, the leadership style of the CEO evolved more and more substantially toward empowering leadership. For both the international and domestic operations, the CEO started involving employees in decision-making, he allowed for initiatives, and afforded some autonomy to managers and engineers. The senior manager explains:

"His way of leading now is very different from what it used to be. He lets us say what we really mean and we aren't afraid of saying things that we know he doesn't like very much, because now he is listening more and he doesn't get angry. And there is much less control on his side. We can do things, discuss projects and talk to our partners without asking for his permission." (Senior manager)

The Sigma and Omega companies followed the same pattern as Beta in their internationalization process (see [Table 5](#) for a summary). Based on the above, we formulate the following proposition:

P3. Conducting small-scale BMI under the guidance of directive leadership will likely result in a prompt entry into foreign markets, but will not suffice to increase sales as the internationalization unfolds.

Peripheral patterns

In addition to the two central patterns discussed above, and from the dynamic perspective of internationalization, we observed two other patterns that differ from the central ones. Three case companies out of eight followed these patterns. Two of them started internationalization with small-scale BMI and a directive leadership style, and therefore fit with one of the central patterns for the early stage of internationalization. However, these companies maintained the same configuration of BMI/leadership style throughout their internationalization. These companies never increased their foreign sales significantly; foreign operations remained a marginal part of their activity. This suggests that, to expand international operations successfully, at some point in internationalization, large-scale BMI is necessary. This idea is also consistent with insights from pattern 2, discussed above. Based on these insights we formulate our fourth proposition.

P4. Large-scale BMI is necessary for increasing sales in foreign markets.

The second peripheral pattern observed in the cases is that of large-scale BMI led by directive leadership in the first stage of internationalization (Delta), with the subsequent evolution of the leadership style toward empowering leadership. The quote below illustrates this change in the leadership style of the CEO.

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

In the case of Delta, only minor changes to the business model were conducted at the later stage of internationalization. This pattern points to the fact that expanding international operations (increasing sales volumes) requires that followers be included more substantially in decision-making, and that the competencies of employees be mobilised to develop and sustain internationalization. In other words, expanding international operations is more likely to occur under the guidance of empowering leadership. Accordingly, we formulate our last proposition:

P5. The empowering leadership style of the CEO facilitates a successful increase in foreign sales.

Discussion

The goal of this research was to develop a theoretical model linking CEO leadership and BMI in the context of late internationalizing SMEs. Our empirical study is embedded in the specific context of Japanese business culture, with its traditional attributes of

collectivism, hierarchical and paternalistic interpersonal relationships, a strong sense of moral obligations, an emphasis on group harmony, and a tendency towards certain leadership styles (Ahmadjian and Robinson, 2001; Dore, 2008; Fukushige and Spicer, 2007).

Based on eight case studies of Japanese manufacturing firms, we identified different configurations of BMI and leadership style at work during internationalization, pointing to a heterogeneity among SMEs in this respect. Therefore, the first major insight that we can derive from our study is that there are different patterns in terms of BMI and leadership style during internationalization. Among these, two appear to be central, and they are combined in our emerging theoretical framework depicted in Fig. 3.

The first pattern corresponds to empowering leaders of SMEs, and engaging in large-scale BMI from the outset of internationalization. The choice of large-scale BMI can be explained by the fact that empowering leaders favour initiatives, participative goal-setting, innovation, and creativity (Hill and Bartol, 2016; Zhang and Bartol, 2010), which naturally leads to more substantial changes to the business model. As depicted in our framework, such large-scale BMI leads to a delayed entry into foreign markets. Consequently, this implies that if SMEs need to enter foreign markets rapidly, large-scale BMI would not be the optimal pathway. However, this pattern allows a firm to gain substantial sales in the early stage of internationalization and to expand its foreign sales, as all the changes to the business model to accommodate internationalization have been made already in the early internationalization stage.

The second central pattern in our framework is that of directive leadership and small-scale BMI. Interestingly, this pattern yielded good results in the early stage of internationalization, particularly in terms of the timing of entry. This finding might appear surprising and counterintuitive, but it can be explained by both the features of directive leadership and small-scale BMI and by contingency factors. Directive leadership features clear focus and determination (Hmieleski and Ensley, 2007), which seems important for a timely market entry. Specifically, when a firm lacks foreign market knowledge and experience, internationalization could be considered a high-risk, high-investment strategy (Williams et al., 2016). This could discourage firms, especially SMEs, from venturing abroad, especially when their resources and investment capacity are declining, as is the case for the SMEs in our sample. In such a situation, broad discussions on whether to enter foreign markets and the quest for staff support might delay or even prevent internationalization, as a consensus could prove difficult, even impossible, to reach. Moreover, employees or followers are probably not prepared to make such a decisive change in the firm's operations independently. Directive leadership is associated with leader determination and non-negotiable goals (Pearce et al., 2003), and clarifies the firm's focus, which here is to enter foreign markets. Moreover, directive leaders typically pursue a single initiative at any given time. Consequently, resources are not "wasted" on various initiatives, but are focused on a specific goal (Ensley et al., 2003). In the SMEs in our sample, directive leadership accompanied small-scale BMI. Indeed, in these companies, most innovation involved redefining target segments and rethinking the channels through which these segments would be reached. This does not require as much time as a major business model redesign would, allowing the firm to proceed with internationalization in a timely manner. Business model innovation also entails risk. For these reasons, SMEs might avoid changing their business model substantially for the purpose of internationalization, particularly in the initial stages of the process, as the returns from large-scale changes are still uncertain.

Our findings on how international experiential knowledge influenced the choice of leadership style and BMI are interesting, as it appears that some (but not all) of the CEOs who displayed directive leadership style in the early stage of internationalization allowed that style to evolve toward empowering leadership as the internationalization unfolded. The evolution of the leadership style that we observed is in line with modern leadership theory (Blanchard et al., 1985; Fiedler, 1967; Fiedler and Garcia, 1987), which considers that leadership style should be flexible, and that it should be amended to align with the environment, the circumstances, the followers, and the task; it should be a vector of innovation and adaptation for the company. As firms internationalize, they go through a learning process (Johanson and Vahlne, 2009; Kogut and Zander, 1993), increasing staff commitment to and understanding of internationalization and, consequently, follower readiness (Blanchard, 2007; Hersey and Blanchard, 1988). As Child and Hsieh (2014) conclude from prior research, increased international experience prompts CEOs to use more rational decision-making modes. The move towards a broader range of initiatives and greater employee involvement is perhaps due to a need to develop and expand operations abroad, that is, to increase foreign sales. In such a situation, the CEO needs to involve other people in the decision-making process as task complexity intensifies (Lorinkova et al., 2013), stimulating initiatives and affording more autonomy to the followers. The two SMEs in our sample whose directive leadership style or degree of BMI did not evolve during internationalization never did succeed in developing their international operations (they failed to increase their foreign sales), which points to a lack of successful adaptation to the intensified complexity of internationalization. These findings echo those of Snihur and Zott (2020, p. 578), who argue that "some firms learn and adapt, and are capable of continuously introducing BMI through founder and managerial agency, while in other cases structural inertia settles in".

Our findings function partly in opposition, however, to what Sosna et al. (2010) suggest about business model evolution. According to these authors, business model evolution comprises two phases: 1) experimentation and exploration, and 2) exploitation. Both phases are shaped by experiential learning (Sosna et al., 2010). Our findings point to two opposing patterns of business model evolution; one starts with exploitation and later evolves towards exploration, while the other, though starting with exploration, later evolves towards exploitation. In our research, most SMEs seem to have opted for limited changes to the business model in the first stage of internationalization (therefore closer to exploitation), but then extended their BMI (exploration) after acquiring international experience.

Given all the different patterns identified in our research, and our emerging theoretical model, two crucial insights appear. Firstly, if firms aim not only to enter foreign markets but also to increase their presence in these markets by increasing their sales, they need to undertake large-scale BMI at some point during their internationalization. Secondly, to successfully increase foreign sales, leaders need to adopt an empowering leadership style, assigning agency to managers and possibly to other employees within the company.

Our findings have significant implications for BMI research. In pointing to a heterogeneity of BMI pathways in internationalization, they also suggest that there are different pathways to performance. The targeted performance outcomes, namely, the timing of foreign market entry or the degree of market presence, will imply different BMI choices. Moreover, the role of leadership appears fundamental;

it strongly influences the choice of the level of BMI and its evolution patterns.

These findings also have significant implications for CEOs of SMEs wishing to internationalize. They point to a need to determine carefully the priorities of the timing of market entry, and the necessary means for increasing operations in foreign markets. They also point to some leadership style and BMI boundary conditions for successful internationalization. As our findings indicate, directive leadership can facilitate a timelier entry into foreign markets. However, when a firm aims to increase foreign sales, CEOs should think carefully about the leadership style they adopt, as the complexity of international environments requires substantial knowledge and skills, which are rarely concentrated in a single person. Moreover, entering foreign markets sustainably requires large-scale BMI.

This study is not without limitations, which open up avenues for future research. First, our study draws findings from eight Japanese SMEs. It is embedded in the context of Japan, which has a number of specific cultural attributes, in particular, those relative to inter-personal relationships and dominant leadership styles. Second, while we purposefully limited our investigation to older SMEs, how CEO leadership drives BMI in early internationalization could also add to our understanding of its role in the internationalizing process as a whole. In addition, our theoretical framework builds on the distinction between directive/empowering leadership and does not account for other leadership styles, such as charismatic, transactional, and transformational leadership, to name just a few. This is obviously a limitation, because a greater variety of leadership styles is present in SMEs. It would be interesting to pursue the line of investigation initiated in this research to provide a more complex, nuanced view of how leadership styles interact with BMI in SMEs during internationalization. This would probably require a quantitative methodological approach. Studying SMEs in different settings (industries and countries) could increase the generalizability of the findings. Finally, a configurational approach, such as fuzzy-set qualitative comparative analysis (fsQCA), could be an inspiring methodology for further developing theory in the area of BMI.

Conclusion

This study aimed to better understand the role of CEO leadership in fostering and leading BMI during internationalization. It proposes a framework for analysing the evolution of leadership style and BMI during the course of internationalization. Our findings point to different pathways to performance, indicating that to sustain international operations, firms need to undertake large-scale BMI to fully respond to the needs of foreign markets, and we highlight that empowering leadership facilitates increasing sales in foreign markets. Engaging followers through managerial agency is a crucial factor for sustainable success in international operations.

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