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Centurion Journal of Business, Economics and Social Science

Vol.1 | Issue 1 | June 2024

Empowering SMEs: Business Model Innovation for Sustainable Growth

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Abstract:

Small and medium-sized companies (SMEs) are essential for economic development and employment creation. The majority of countries throughout the world have recognized the importance of Small and Medium Enterprises (SMEs) in national economic growth by creating jobs, producing income, and promoting economic development. However, fast technological improvements, often changing legislation, and market competitiveness all pose problems to SMEs. This article investigates the role of business models and innovation in enabling small and medium-sized firms to achieve sustainable growth. Firms adapt their processes in response to market circumstances. This technique might assist them in maintaining their business in a competitive industry. This study examines the techniques and practices that aid in effective business model innovation in SMEs by analyzing business and model frameworks. The study's results can improve SMEs' competitiveness while contributing to sustainable social and economic growth. This research study offers significant insights for entrepreneurs, business executives, and policymakers looking to drive long-term growth in the SME sector.

Keywords: Business Model Innovation, SMEs, Economic Development, Sustainable Growth

1. Introduction:

A progressive entrepreneurial performance leads to the nation's economic performance in monetary improvement. Entrepreneurial motivation is the first step in starting a business. In a developing country like India, entrepreneurs must be highly motivated to achieve the nation's goals Santhi, N., & Kumar, S. R. (2011). Entrepreneurship plays a preeminent role in the economic development of a country, which can Promote regional employment generation, reduce economic disparities, and establish industries; it depends on entrepreneurial activities. However, Small and Medium-sized Enterprises (SMEs) play a crucial role in the global economy, driving innovation, creating jobs, and contributing significantly to GDP. Entrepreneurs face many challenges in establishing, running, and maintaining their enterprises. The significant issues are limited resources, stiff competition in the market and dynamic market conditions.

Modifying business models is recognized as a fundamental strategy for achieving innovations in sustainability. Business model innovation can serve as a crucial strategy for Small - Medium sized enterprises to navigate these challenges and attain sustained growth.

1.1 Small and Medium Size Enterprises:

MSME stands for Micro, Small, and Medium Enterprises. According to the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006, these enterprises are classified into two categories. i.e. Manufacturing enterprises and Service enterprises. Micro Small and medium-sized Enterprises (MSME) are major contributors in India's economic growth. It contributes about 33% of India's GDP. The MSME sector employs 1.28 crore units and over 9.3 crore jobs across industries in India. (Udyam portal 2023). Small and medium-sized micro-enterprises are categorised based on the investment.

Existing and Revised Definition of MSMEs			
Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.
Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover <Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

1.2 Business Model:

A business model defines how a company creates, delivers, and captures value. It serves as a blueprint for the organization's operations, detailing its value proposition, target customer segments, revenue streams, and key activities. Business models have been a buzz among researchers and practitioners during the last two decades. However, practitioners and researchers use the business model terminology to describe the structure and activities. Most businesses follow a particular business model, which outlines the design of value creation, capture, and delivery Teece, D. J. (2010). A business model describes how an enterprise creates and delivers customer value through converting payments into profit. According to Zott, C., Amit, R., & Massa, L. (2011). The business model and strategy show the difference among competitors and promotion of value creation. Different business models adopted by different businesses, like the subscription model, where companies charge a fee monthly or annually to access their product or service from the customers. On-demand models is another type of model in which companies provide service to their customers on- demand through mobile apps. Franchise model is a type of business model in which a company grants their rights to operate and sell products or services using its brand to other company; in return, it charges fees and royalties. Like many business models

are existing in the market. In today's complex and dynamic environment, firms need to improve their performance, for instance, by innovating their business model.

1.3 Business Model Innovation:

Business model innovation (BMI) allows existing organizations to renew their business models by altering or rethinking how they produce, offer, and acquire value through the different inter-related firm's core components Soluk, J., Miroshnychenko, I., Kammerlander, N., & De Massis, A. (2021). The number of publications addressing theoretical and quantitative research approaches to BMI is increasing Foss, N. J., & Saebi, T. (2017). Researchers have recently emphasized the relevance of Business Model Innovation (BMI). Thus, BMI allows firms to respond quickly to market opportunities, commercialize innovations through new business models, redefine existing markets or create new ones Amit, R., & Zott, C. (2012). The concept of BMI has been developed and applied in many different management research fields, including marketing, entrepreneurship, strategy, technology, operations management, and organisational studies Foss, N. J., & Saebi, T. (2017). Business model innovation can itself show uniqueness and get an advantage, and the model is sufficiently differentiated and challenging to replicate for incumbents and new entrants alike Teece, D. J. (2010). Innovation is as

follows: "an invention is an idea, a sketch, or a model for a new or improved device, product, process, or system (Fremen)". BMI also creates new ways of generating revenue by adopting innovative revenue models such as subscriptions, pay-per-use, easy monthly instalment payment systems, etc.

1.4 Sustainable Growth of SMEs:

Sustainability aims for people to live harmoniously on Earth for generations to come. Sustainability usually has three dimensions: environmental, economic, and social. Sustainability is gaining greater significance in society, particularly in business ventures that plays a crucial role Tur-Porcar, A., Mas-Tur, A., Merigó, J. M., Roig-Tierno, N., & Watt, J. (2018). Sustainable growth means a business can expand its operations and increase revenue without significantly harming the environment or depleting natural resources. Sustainable growth enables small and medium-sized enterprises (SMEs) to operate and thrive over the long term. By implementing sustainable practices, SMEs can avoid the pitfalls associated with rapid, unsustainable expansion, such as resource depletion, regulatory challenges, and financial instability. Sustainable growth not only benefits the business itself but also contributes to the well-being of society and the preservation of the planet for future generations. The dynamic capability perspective views business model

innovation as starting with an initial experiment, followed by ongoing revisions, adaptations, and fine-tuning through trial and error Sosna, M., Trevinyo-Rodríguez, R. N., & Velamuri, S. R. (2010)

2. Business Model Innovation (BMI) in Small Medium size Enterprises (SMEs):

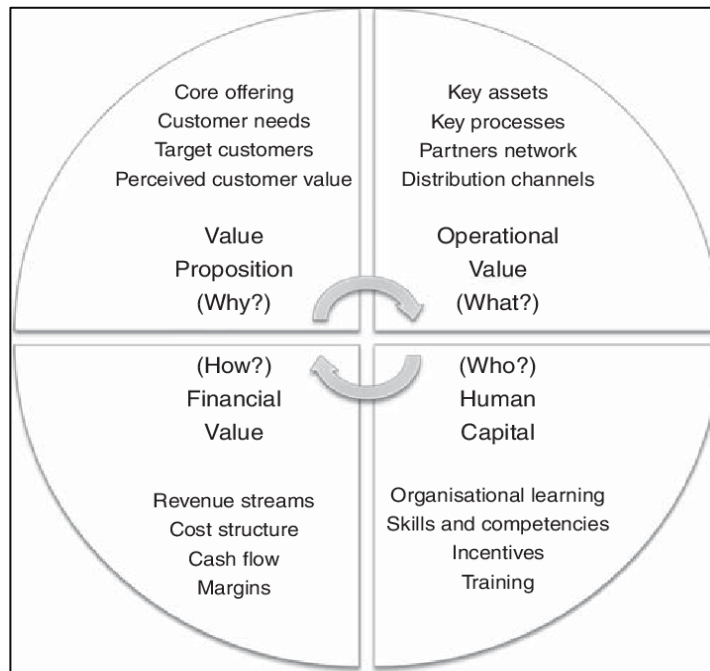
Due to dynamic environmental conditions, small-medium enterprises need help to sustain their business from the competition. The business model has become essential in innovation management Massa, et. al. (2017). BMI can help SMEs stay in a fast-changing environment of competition, regulations, and changing behaviours among customers in the market. Moreover, if a company avoids imitation by competitors, BMI significantly improves its competitive advantage Schneider, S., & Spieth, P. (2013). BMI is the search for new logic of the firm and new ways to create and capture value for its stakeholders Casadesus-Masanell, R., & Zhu, F. (2013).

2.1 Business Model Innovation Framework:

Unlike traditional frameworks that primarily examine the components of business models, this framework emphasizes areas where innovation can explore alternative business models. Arrows in the framework indicate the continuous interaction of business model

elements. This framework consists of 4 areas of innovation and 16 elements.

Fig: Business model Innovation Framework



Source: Boumediene Ramdani work, 2019

Value proposition

The first area of innovation focuses on addressing the "Why" questions. It involves reevaluating a company's offerings, exploring emerging customer needs, acquiring specific target customers, and evaluating the perceived benefits offered to customers. Contemporary organizations prioritize innovating their value propositions to attract and maintain a substantial share of their customer base Al-Debei, M. M., & Avison, D. (2010).

Operational value

The second area of innovation focuses on elements associated with answering the "What" questions. These elements encompass configuring essential assets and sequencing activities to deliver the value proposition, elucidating the diverse channels through which a company engages customers, and forging connections with crucial partners and suppliers.

Human capital

The third area of innovation refers to elements associated with answering the “Who” questions. This involves experimenting with novel business approaches and leveraging the skills and competencies required for the new business model by motivating and engaging individuals in innovation.

Financial value.

The final area of innovation focuses on elements associated with answering the “How” questions. These elements encompass activities related to capturing value through revenue streams, altering pricing mechanisms, and evaluating a

business's financial viability and profitability.

2.2 Business Model Canvas:

The nine "building blocks" of the business model design template, later known as the Business Model Canvas, were first introduced by Alexander Osterwalder in 2005. The business model canvas is a tool designers use to outline a business or product's key actors, activities, and resources. It also addresses the value proposition for target customers, customer relationships, channels utilized, and financial aspects. This tool provides a comprehensive overview to identify the requirements for delivering the service and beyond.

Fig: Business Model Canvas

Business Model Canvas (BMC)				
Key Partners:- <ul style="list-style-type: none">- Who are the key partners/ Suppliers or vendors?- Do we have any consulting firms?- Which key resources or capabilities do they provide?	Key Activities:- <ul style="list-style-type: none">- What are the key processes & tasks we need to create to deliver the value proposition?- What do we develop, sell or manage? Key Resources:- <ul style="list-style-type: none">- Who are the key resources to deliver the key activities?- Do we have any key partners to deliver the same?	Value Propositions:- <ul style="list-style-type: none">- What is the core problem we are trying to solve?- Are there multiple problems we are trying to solve?- How the new value will be different than the current value?	Customer Relationships:- <ul style="list-style-type: none">- How we should keep relationship with our customer?- Which idea will fits best with each segments? Channels:- <ul style="list-style-type: none">- How we should connect with your customers?- What are the most cost-efficient and reliable channels?	Market Segments:- <ul style="list-style-type: none">- Who are the primary customer for this product?- For whom we are creating the values?- Do we have any secondary customer?- What are the customer segments or user groups we have identified?
Cost Structures:- <ul style="list-style-type: none">- What are the fixed & variable costs?- What are the main elements of operational expenses?- Do we have costs involved for CAPEX?		Revenue Structures:- <ul style="list-style-type: none">- What is our primary revenue model?- What are the secondary source of revenue?- Do we have subscription, service, licensing fee model?		

Source: Harvard Business Review, May 2013.

1. **Customer Segments:** Identifies different groups of people or organizations that a business aims to serve.
2. **Value Propositions:** Describes the products or services that address the needs or solve the problems of the target customer segments.
3. **Channels:** Specifies how a company reaches and delivers its value proposition to its customer segments.
4. **Customer Relationships:** Describes the relationships a company establishes with its customer segments to acquire and retain them.
5. **Revenue Streams:** Details how a company generates revenue from each customer segment.
6. **Key Resources:** Lists the most important assets required to deliver the value proposition, reach customers, and operate effectively.
7. **Key Activities:** Describes the crucial activities a company must perform to create and deliver its value proposition.
8. **Key Partnerships:** Identifies the external entities (suppliers, partners, etc.) needed to leverage resources and activities.
9. **Cost Structure:** Outlines all the costs incurred to operate the business model.

Business model canvas is a helpful tool for mapping out a business model. The Business Model Canvas enables organizations to systematically visualize

and analyze these elements, promoting structured decision-making, fostering innovation, and enhancing communication across the company. It is widely embraced by startups, established enterprises, and organizations aiming to refine or transform their business strategies.

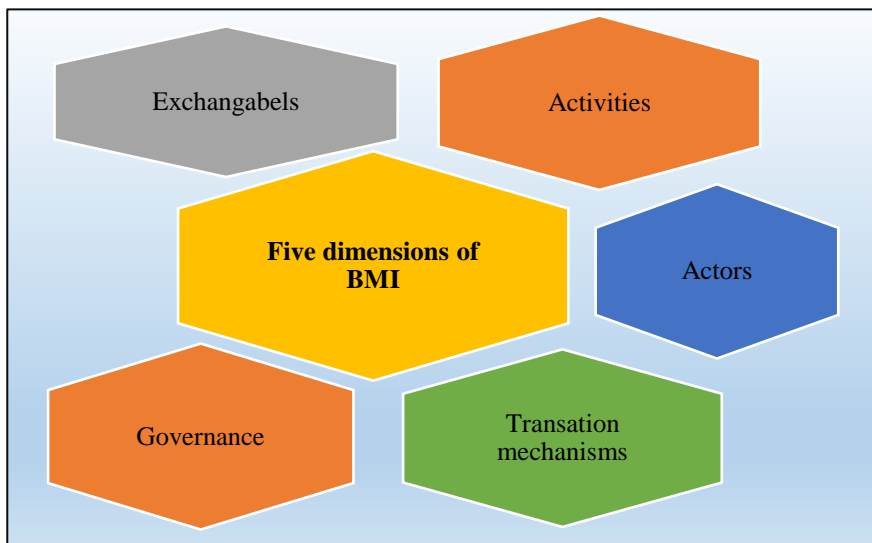
2.3 Dimensions of BMI:

In today's fast-paced business world, pursuing innovation has become crucial for companies seeking to excel in a competitive environment. As the concept of a business model gains prominence, it is clear that a more profound understanding is necessary to fully grasp its complexities and potential for innovation. An innovative framework that breaks down a business model into five dynamic dimensions.

The first dimension of a business model pertains to its *exchangeable*. An exchangeable is any tangible or intangible asset produced by an activity to serve as an input for another activity. The second dimension involves the *activities* within a business model. These activities consist of a series of interconnected actions that collectively form a distinct and coherent process within the business model. The third dimension focuses on the *actors* within a business model. These actors include individuals, organizations, and machines, all of which possess the capabilities to perform specific actions that contribute to one or more business model

activities. The fourth dimension pertains to the *transaction mechanisms* employed within a business model. These mechanisms describe how transactions occur when a good or service is transferred across a technologically distinct interface.

The fifth dimension is the setup, which pertains to the *governance* of a business model. It involves the control and regulation of business model activities by actors Amit, R., & Zott, C. (2001).



2.4 Significance of Business Model

Innovation:

Competitive Advantage: Innovating the existing business model can provide a significant competitive advantage. It enables companies to stand out in the market, attract new customers, and more effectively meet the needs of current ones.

1. **Adaptation to Market Changes:** The business landscape is continually evolves due to technological advancements, regulatory shifts, and changing consumer preferences. Business model innovation enables

companies to adapt to these changes and stay relevant.

2. **Revenue Expansion:** Through exploring new revenue streams and optimizing existing ones, business model innovation can catalyze substantial revenue expansion. It is essential in mature markets where traditional growth opportunities may be exhausted.
3. **Cost Efficiency:** Innovating the business model can result in cost savings and enhanced efficiencies. For instance, embracing a digital-first

strategy can reduce overhead expenses and streamline operations.

4. **Risk Management:** By diversifying revenue sources and adjusting to market dynamics, businesses can mitigate risks. A flexible and innovative business model can assist companies in navigating economic downturns and other external disruptions
5. **Improved Customer Experience:** Business model innovation frequently aims to enhance the value delivered to customers, resulting in higher satisfaction, loyalty, and retention rates.
6. **Market Expansion:** Innovative business models can facilitate entry into new markets and customer segments. For example, implementing a subscription model can appeal to cost-conscious customers who prioritize lower initial expenses.
7. **Sustainability:** Business model innovation can promote sustainability by prioritising environmental stewardship and social responsibility. It aligns with regulatory and societal expectations and resonates with an expanding group of environmentally conscious consumers.
8. **Attracting Investment:** Innovative business models often draw interest from investors due to their potential for higher growth and adaptability. This can result in increased funding

and resources to support further expansion.

3. Challenges Faced by SMEs for Growth:

Small and medium-sized enterprises (SMEs) play a crucial role in economies worldwide, including in India. Small and medium-sized enterprises contribute the major portion of the GDP from the manufacturing sector. However, these Small and medium-sized enterprises (SMEs) in India face several challenges that can hinder their growth and sustainability. Small and medium-sized enterprises face difficulties in accessing financing assistance especially start-up companies because of a lack of knowledge of technology, skills and government support of entrepreneurship Maheshkar, C., & Soni, N. (2021)

3.1 Some of the key challenges faced by SMEs include:

- i. **Access to Finance:** SMEs often need help accessing adequate financing from banks and financial institutions due to stringent lending criteria, lack of collateral, and high interest rates. This limits their ability to invest in technology, expand operations, and innovate.
- ii. **Limited Market Access:** Many SMEs need more access to domestic and international markets, restricting their growth potential. Barriers such as

- complex regulations, bureaucratic hurdles, and lack of market information can make it difficult for SMEs to compete effectively.
- iii. **Infrastructure Deficiencies:** Issues related to inadequate infrastructure, including unreliable power supply, poor transportation networks, and limited access to technology and digital infrastructure, pose significant challenges for SME operations and logistics.
 - iv. **Skills Shortages:** SMEs often need help finding skilled and qualified employees. There needs to be a match between the skills SMEs require and those the available workforce possess. This gap hampers productivity and growth.
 - v. **Regulatory and Compliance Burdens:** SMEs in India must navigate a complex regulatory environment that includes multiple regulations, licenses, and compliance requirements at various levels of government. This can be time-consuming and costly for small businesses.
 - vi. **Technological Adoption:** Many SMEs struggle with adopting new technologies and digital tools due to lack of awareness, cost considerations, and uncertainty about the benefits. This limits their ability to improve efficiency,

reach new markets, and compete with larger firms.

- vii. **Access to Support Services:** SMEs often need more access to business development services, including mentoring, consulting, and networking opportunities. This hinders their ability to scale up, innovate, and stay competitive in the market.
- viii. **Sustainability and Environment:** Increasing pressure for sustainable practices and environmental compliance adds another challenge for SMEs, especially in sectors where stringent regulations and enforcement is strict.

Business Model Innovation (BMI) is crucial for Small Medium Enterprises, as it provides the agility and resilience required to navigate the complexities of today's dynamic market environment. SMEs frequently encounter unique challenges, including limited resources, intense competition, and rapidly changing customer preferences.

4. **Conclusion:**

The business model concept has emerged as a valuable way of understanding a firm's ability to create an appropriate value as opposed to the traditional thoughts of competition through products and operations (Zott & Amit, 2010). Research on business models should also review results in terms of BMI *Drivers* to acquire

proper knowledge. By continually reevaluating and adapting their business models, organizations can enhance their competitive edge, respond effectively to market changes, and capitalize on emerging opportunities. Achieving sustainable growth for SMEs involves navigating a complex landscape of challenges and opportunities. By focusing on innovation, efficiency, and responsible practices, SMEs can enhance their competitiveness and contribute positively to economic, social, and environmental sustainability. The research gap on business model innovation (BMI) in SMEs for sustainable growth holds significant promise across several critical dimensions. Investigating the impact of digital transformation, ecosystem partnerships, and inclusive business models can illuminate pathways for enhancing SME resilience and innovation capabilities.

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