

Feature

The Challenge of Business Model Innovation

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To create organizations that will succeed in the 21st century, association leaders must learn to embrace new ways of doing business.

In the aftermath of nearly two years of severe economic turmoil, the most significant problem facing association boards, CEOs, and senior executives today is the task of creating organizations capable of thriving in the 21st century.

Reaching this vital goal demands that associations embark on a comprehensive, dynamic, and ongoing process of reinvention, beginning with an intentional and imaginative effort to design, develop, and implement new business models (see sidebar "[What Is a Business Model?](#)" below) that fully integrate the inextricably linked pursuits of purpose and profit.

Let's be clear from the outset: *Tackling business-model innovation will not be easy, and association leaders should be under no illusions to the contrary.* For a variety of reasons we will explore in this article, achieving genuine business-model innovation is a profoundly complex challenge—what we call a "wicked problem"—that defies ordinary solutions. Addressing [business-model innovation](#) in a productive and generative manner compels association leaders to reject the narrow constraints of the quasi-strategic chatter that routinely occurs in board meetings and planning sessions. Instead, leaders must elevate their thinking and expand their worldview to connect with breakthrough insights and novel ideas that will enable their organizations to reach the goal of thriving before the end of this decade.

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What Is Thrivability?

Most business-model conversations focus on the need for sustainable revenue streams from a variety of sources, including both dues and so-called "nondues" revenue. While there is nothing inherently wrong with this line of thinking, it is simply too limited for association leaders seeking the next trajectory of success.

The concept of mere financial sustainability evokes a n inherently incremental approach, a choice to do only *what is feasible* to keep our organizations moving mostly undisturbed along familiar pathways. But incremental approaches are wholly inadequate to the speed and intensity of the global challenges facing our organizations. At this critical moment, however, it is essential for association leaders to seek out and discover

whatever is possible and necessary to achieve previously unimaginable levels of success that can inspire current stakeholders and attract the stakeholders of the future.

For this reason, I have adopted (and adapted from other online conversations) the term "thrivability," which I define in this context as "the capacity to flourish by capitalizing on the powerful forces that are irrevocably reshaping our society." Association leaders need to make explicit and enduring commitments to renew and reinvent their organizations for the 21st century—to make them thrivable.

By focusing on thrivability, association leaders must choose to abandon their fear of the profound changes taking place in our world and instead act to leverage the strategic momentum these changes produce to give their organizations maximum opportunity to reach their full potential.

Building inventive business models that can move associations closer to realizing their deeper purposes while still pursuing profitable growth must be the first item on the thrivability agenda. Our community needs leaders capable of embracing this emerging responsibility. Unfortunately, the vast majority of association leaders have never been asked to engage in the work of business-model innovation before, which means that navigating this uncharted territory will also involve overcoming several other important challenges that will test their leadership skill and resolve.

Six Leadership Challenges of Business-Model Innovation

Business-model innovation is a strategic challenge. Business-model innovation does not occur in a vacuum, nor can it be put on hold until "things get better." Even as association CEOs and senior executives manage the dynamics of their organizations' current business models within today's demanding operating context, they also must develop a deeper understanding of how increased volatility, uncertainty, complexity, and ambiguity will shape their business-model innovation efforts going forward. The most promising new business-model opportunities for associations are likely to be found not in what is obvious about the world in which their stakeholders live but in developing fresh solutions to the less visible difficulties those stakeholders face both personally and professionally.

Discovering thrivable business models also requires leaders to challenge long-standing beliefs about value creation. Umair Haque, a London-based strategy consultant and blogger, urges organizations to shift from creating "thin value" to "thick value." Thick value is deep, meaningful, and enduring and is created in a manner consistent with an organization's purpose. It stands in stark contrast to thin value, which is surface level and creates purely profit-driven transactions instead of purpose-driven relationships between an organization and its stakeholders.

Associations must bring the same focus to technology

As part of the business-model innovation process, associations need to take a careful look at how much of their current value-creation efforts are about thin rather than thick value, let go of the former, and identify new types of thick value that can fill unarticulated needs both meaningfully and profitably.

leadership they have traditionally brought to advocacy, governance, and financial management.

Business-model innovation is a technological challenge. The rise of the World Wide Web has wreaked havoc with the traditional association business model. Membership, education, and access to information—three of the most common value propositions and most important revenue streams found in association business models—have been disrupted by what often feels like an infinite variety of acceptable (and occasionally superior) online alternatives that can be delivered at lower cost and often free of charge to end users. Meanwhile, associations have struggled to imagine new value propositions they can offer to slow down this process of commoditization.

It is critical for boards, CEOs, and senior executives to bring the same intensity and focus to technology leadership they have traditionally brought to advocacy, governance, and financial management. The performance of both the cost and value sides of future business models will depend on the intelligent implementation of technology.

On the cost side, associations need to be aggressive in applying information technology to build powerful platforms for value creation, capture, and delivery that reduce bureaucratic complexity and amplify human creativity. On the value side, social, mobile, and other emerging technologies open new opportunities for thick-value creation. These tools are reshaping not only business processes but also the needs, preferences, and expectations of current and future stakeholders, offering associations the opportunity to design new value-driven relationships with them.

Business-model innovation is a financial challenge. The global economic meltdown has caused dramatic reductions in both investment income and direct revenue and exposed the flaws and weaknesses of current association business models. Membership renewals, meeting registrations, and business-partner support are just three income sources that have suffered during this period. For many associations, the long-term impact of economic decline on the industries and professions they serve means those revenues may never return to their previous levels. For associations facing this situation, business-model innovation must be a special priority.

But business-model innovation is not about moving from the present to the future in a single all-or-nothing leap. Rather, it is an iterative process of prototyping new models, including focused experimentation with new strategies for value creation, capture, and delivery that mitigate, manage, and, when possible, capitalize on financial and related risks. As part of this, association leaders must accept the uncomfortable truth that they cannot achieve success while completely eliminating risk. Association boards in particular must understand that at some point the work of business-model innovation

may well involve an intentional choice to place current revenue streams at risk to effectively test tomorrow's more thrivable models.

Business-model innovation is a learning challenge. During the business-model innovation process, association leaders must consider what capabilities their organizations will need to create and deliver new forms of thick value. While some of those capabilities may be in place already, the successful shift from one business model to the next will depend on whether the association can build and integrate new capacity. This kind of deep and transformative learning can be difficult and time consuming, but associations can accelerate the flow of learning and knowledge through stakeholder networks and communities and make it stick by fully engaging those groups early in the business-model innovation process.

Of course, the larger challenge facing associations pursuing business-model innovation may not be learning, but "unlearning." Organizational reinvention requires more than the development and implementation of next practices, although that is a very good start. It also demands leaders closely question and actively discard obsolete organizational assumptions about past drivers of success, without denial or nostalgia. This kind of unlearning runs directly counter to the normal leadership reflex to keep on doing what we think we know is working. Instead, association leaders must act wisely to recognize ground truth and let go of outmoded beliefs so they do not interfere with the possibility of real innovation.

Business-model innovation is a social challenge. For associations, designing robust social systems in support of new business models is at least as important as the leadership response to the other challenges discussed above. Associations must be able to fully capitalize on the voluntary engagement of both individuals and stakeholder networks by discarding centralized legacy approaches in favor of more open, flexible, and dynamic practices and structures for distributed collaboration and co-creation. Moreover, technology platforms and social systems must be integrated to make engagement as convenient, simple, and meaningful as possible.

Associations can unleash the potential of new social systems by crafting trust-based, purpose-driven relationships with their stakeholders, something many organizations struggle with today. To facilitate this process and build shared expectations, associations can enter into reciprocal "terms of service" agreements with their stakeholders. Formally codifying these agreements is an explicit and tangible investment in social capital that should reduce friction and increase stakeholder cooperation in delivering on the promise of new business models.

Business-model innovation is a governing challenge. The business-model innovation process is central to what I call "the new work of governing" for associations, because only the governing group can ensure all of the other challenges presented in this article are addressed both productively and generatively. The decisions made by this group, which includes the board, the CEO, senior executives, and other voluntary leaders who contribute to governing conversations, will determine whether business-

model innovation is a serious effort to create a vibrant future or nothing more than a half-measure without long-term impact.

More broadly, the thrivability of every association is directly related to the governing group's view of its stewardship responsibilities. Governing groups can prioritize the work of compliance and oversight in an effort to keep their organizations out of harm's way—or they can choose to embrace the new work of governing, build the success of the association as a commons, and act decisively to drive essential strategic risk taking, including the intentional pursuit of business-model innovation.

I stated this at the beginning of this article, but it bears repeating: *Tackling the wicked problem of business-model innovation will not be easy, and association leaders should be under no illusions to the contrary.* But no one has ever suggested that serving as a 21st century association leader would be easy.

The real question is whether staff and voluntary association leaders are ready to step up and take their organizations to the next level. If the answer is yes, then embracing and solving the challenges of business-model innovation as part of a long-term effort to build thriving organizations must be the top priority. Now is the time for leaders to act, not the time to wait.

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What Is a Business Model?

A business model describes the rationale of how an organization creates, delivers, and captures value. The nine building blocks of a business model are:

1. **Stakeholder segments:** the distinct and profitable stakeholder groups an organization consciously chooses to reach and serve;
2. **Value propositions:** the combination of products, services, experiences, and other offers that create value for specific stakeholder segments;
3. **Channels:** the methods and approaches an organization uses to identify, communicate, and connect with stakeholder segments to deliver a value proposition;
4. **Stakeholder relationships:** the types of relationships an organization establishes with specific stakeholder segments;
5. **Revenue streams:** the cash an organization generates from each stakeholder segment;
6. **Key resources:** the most important physical, financial, intellectual, or human assets required to make a business model work;
7. **Key activities:** the most important processes and practices an organization must perform to make its business model work;
8. **Key partnerships:** the network of allies, suppliers, and partners that make the

business model work;

9. **Cost structure:** all costs incurred to operate a business model.

Adapted from [Business Model Generation](#) by Alex Osterwalder, Ph.D., and Yves Pigneur, Ph.D.