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Faculty of Business Economics

Master of Management

Master's thesis

Business model innovation: Iraqi financial firms as a case study

Abdal Ghany Al-Hassani

Thesis presented in fulfillment of the requirements for the degree of Master of Management, specialization International Marketing Strategy

SUPERVISOR :
Prof. dr. Wim VANHAVERBEKE

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Abstract

This thesis investigates the business model innovation (BMI) phenomenon for the financial sector in Iraq, a sector where there is very good potential, but which is still criticized for being in a pre-emerging stage and requiring a lot of development. BMI is a new way for financial firms in Iraq to increase the value offering and obtain sustainable competitive advantage. BMI has great benefits, but it is also hard to implement: it needs many financial and non-financial resources and often the organizational culture needs to be changed to adopt the new business model. Another obstacle is the human resources and the systems, which require alignment to support the new innovation. The research also investigates the starting point of BMI and what triggers the process.

This thesis explores the concept of BMI and how it has been applied in the Iraqi financial sector, proposing alternative approaches. Implementation barriers that the firm needs to consider when implementing BMI are also discussed. The main contribution of this thesis is to understand and explain why many companies fail in the BMI implementation process by studying Iraqi financial firms' experiences of BMI and the challenges they faced.

The study used a qualitative research approach, employing semi-structured interviews with seven managers in seven financial firms in Iraq. The participants were chosen from the strategic level, including CEOs, managing directors, and operation managers, as decision-makers can give the researcher access to the needed information and practices in their firms.

The findings revealed that BMI is initiated due to external factors such as competition, regulations, and technology advancement. The process is hard to implement: it is described as a high-risk experiment where the right resources need to be allocated alongside the right people. Leadership commitment is essential to the process as, without it, the experiment could be killed in its initial stage. Systems and processes could present another barrier and thus need to be aligned with the innovation.

Chapter 1 Introduction

1.1 Introduction

There has been great debate about business models (BMs) and business model innovation (BMI) amongst both scholars and practitioners. Although many scholars have investigated those two topics there is as yet no consensus on how these concepts should be defined and applied(Jensen, 2013).

A handful of scholars have tried to come up with widely accepted definitions or a classification or framework encompassing both concepts and the related processes. (Fielt, 2013) presented a comparison of definitions of a BM and elements and archetypes of BMs whereas other scholars have taken a practical approach to the definition of BMI, BMI processes and a BMI framework (Bernd W. Wirtz 2016; Henry Chesbrough, 2010; Stampfl, 2014). (Fielt, 2013) argued that despite increasing scholarly interest in BMs, "the concept is still fuzzy and vague and there is little consensus on its definition and compositional elements" (p. 86).

Research on BMs became popular in the late 1990s, in parallel with the great advances in ICT and digital commerce (Fallahi, 2017; Lecocq, 2010; Morris, Schindehutte, & Allen, 2005). The BM concept is used in research to classify firms according to their performance and innovation (R. Amit & Zott, 2001). BMs have been studies from several different perspectives, such as e-business, strategy, innovation and management(Fallahi, 2017).

The importance of the BM concept is due to the economic changes that have taken place over the last three decades: the emergence of new technologies and the rise of the Internet have changed the balance between customers and suppliers. Technological advances have given customers more choice and access to better information about firms' offerings, so it is clear that firms need not just to be more customer-centric but also enable them to capture value for themselves (Teece, 2010). (Teece, 2010, P173) stated that "a business model defines how the enterprise creates and delivers value to customers, and then converts payments received to profits". Many researchers have attempted to provide a definition of a BM and the table below summarizes these definitions. An understanding of BM definitions is the first step towards defining BMI and BMI processes.

The financial sector in Iraq is underdeveloped and the Iraqi government, along with international organizations such as the International Monetary Fund (IMF) and World Bank, is trying to enhance Iraqi banks' capacity to support the country's economy. In 2009, the government of Iraq embarked on a comprehensive banking sector reform with the objective of modernizing the banking system. This strategy has received support from the international community, including the World Bank and other partners. Efforts have been made to strengthen the infrastructure of the financial sector, its supervisory and regulatory authority, and risk management. These developments have all affected the banking system, which provides a unique opportunity to investigate business model innovation in the financial sector in Iraq.

Nowadays, many banks are implementing major changes to their business model. For example, banks are providing a new online payment platform where customers can easily manage their money; other banks seek to differentiate themselves by providing better customer service and trying to educate clients about their new offerings. Almost all banks have debit cards and are working not just to increase the issuing of cards to their clients, but to find new ways to increase the card usage in the Iraqi society, which is heavily dependent on cash. New companies are being formed to support these developments, such as IT support companies and credit companies, which are considered a part of the Iraqi financial sector. Most of these new companies already have an innovative business model which can be studied and investigated.

In the next section I examine the current situation of the Iraqi financial sector and then I review the literature on BMs, elements of a BM, the concept of BMI and BMI processes.

After this I describe the methodology and results of this research and present some conclusions and implications.

1.2 Iraqi Banking overview

1.2.1 A history of Iraqi banking

Historically, the first bank that started operations in Iraq in 1890 was the Ottoman Bank. In 1912, the East Bank established its first branch in Baghdad, followed by the Iranian Bank in 1918. Those were the only banks that operated in Iraq till 1935, when the Agricultural Bank was established by the government of Iraq. Then in 1941, the Alrafidain Bank opened as the first retail bank in Iraq. In 1964 the Iraqi government nationalized the banks; this step ended the existence of private and international banks in Iraq(Akbar, 2003).

In 1988, a new bank was established by the Iraqi government called the Al-Rasheed Bank. While the first private bank was allowed in 1999, currently there are seven state-owned banks with 39 private banks,18 regional banks, one representative office of International bank, two companies that provide mobile payment method, and other three companies issuing debit cards and provide IT infrastructure for the online payments(CBI, 2018a, 2018b; IMF, 2017). As shown in table 1, the total number of bank branches remains low: there are 840 branches all over Iraq, which means that each branch serves more than 36,000 individuals(CBI, 2015; Sansarcapital, 2013). This low coverage is considered as one of the reasons that the banks do not contribute to the economic development of the country.

Table 1: Number of banks branches in Iraq

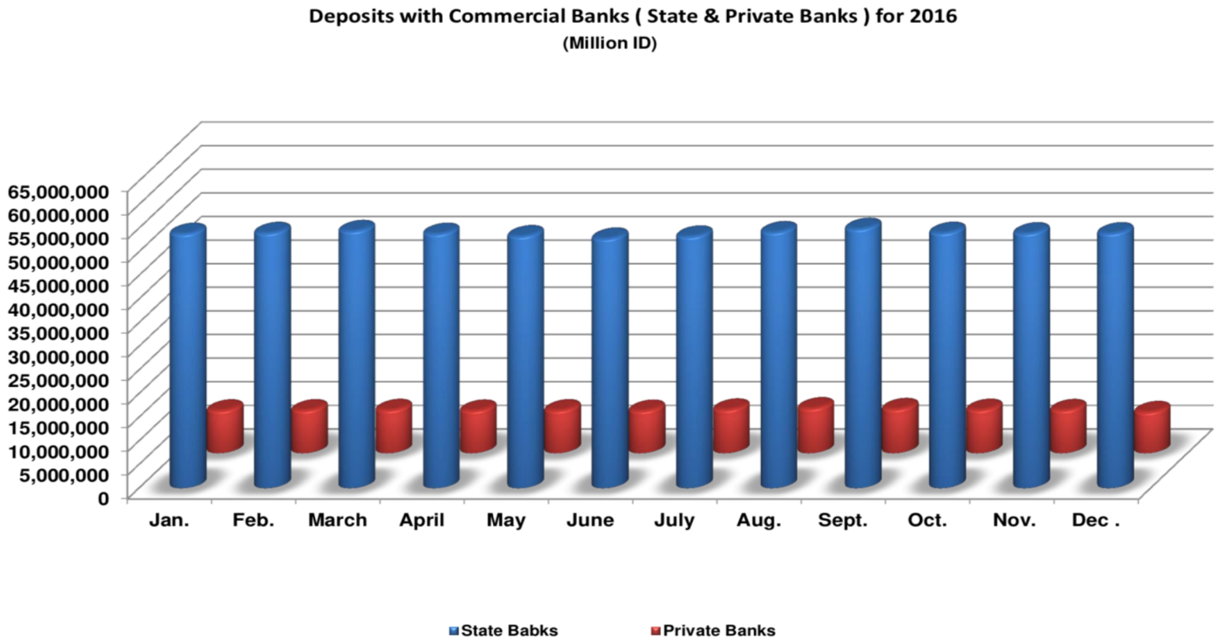
Number of Branches & Employees of oprating Banks in Iraq as at 31/12/2016

Banks Name	عدد الموظفين NO. of Employees	Number of branches			
		المجموع Total	خارج العراق Abroad	محافظات Governorates	بغداد Baghdad
Rafidain Bank	9,127	169	7	103	59
Rasheed Bank	7,592	149		86	63
Agricultural Cooperation Bank	1,222	42		35	7
Industrial Bank of Iraq	734	10		5	5
Real Estate Bank	872	16		14	2
Trade Bank Of Iraq	1,055	23		14	9
Alnahrain Islamic Bank	163	4			4
Total of State. Banks	**20,765**	**413**	**7**	**257**	**149**
Bank of Baghdad	868	36		22	14
Commercial Bank of Iraq	199	12		2	10
Basrah International Bank for Investment	37	2		1	1
Iraqi Middle East Bank for Investment	369	18		12	6
Investment Bank of Iraq	246	17		9	8
United Bank for Investment	602	22		13	9
National Bank of Iraq	322	12		8	4
Credit Bank of Iraq	183	5		3	2
Dar Alsalam Investment Bank	195	9		6	3
Babylon Bank	256	12		8	4
Economic Bank for Investment & Finance	373	28		15	13
Summer Commercial Bank	191	10		3	7
Warka Bank for Investment & Finance	48	18		14	4
Gulf Commercial Bank	433	26		14	12
Mousel Bank for Development & Investment	83	13		12	1
North Bank for Finance & Investment	113	7		6	1
Union Bank of Iraq	270	8		7	1
Ashur International Bank for Investment	186	11		7	4
Mansour Bank for Investment	243	10		6	4
Trans Iraq Bank	181	3		1	2
Region Trade Bank for Investment	133	6		5	1
AL-Huda Bank	106	6		2	4
Erbil Bank	96	4		3	1
International Development Bank	403	13		8	5
Total Tocal Private Banks	**6,136**	**308**	**0**	**187**	**121**
Iraqi Islamic Bank for Investment & Development	268	15		11	4
Elaf Islamic Bank	216	17		10	7
Dijah&Furat Bank for Development & Investment	164	6		4	2
Kurdistan International Bank for Investment & Development	614	5		4	1
Islamic National Bank	250	7		4	3
Islamic Regional Cooperation Bank for Development & Investment	160	9		7	2
Bilad Islamic Bank for Investment & Finance-Al	256	15	1	7	7
Gehan Bank for Investment & Islamic Finance	286	13		11	2
AL Janoob Islamic Bank	81	2			2
World Islamic Bank for Investment & Finance	52	2			2
International Islamic Bank	117	2			2
Iraq Noor Islamic Bank for Investment & Finance	160	5			5
Zain AL Iraq Islamic Bank for Investment & Finance	14	1			1
AL ARABIYA Islamic Bank	36	1			1
AL Rawahel Islamic Investment & Finance	17	2			2
Total Islamic Private. Bank	**2,691**	**102**	**1**	**58**	**43**
Abu Dhabi Islamic Bank	59	3		2	1
*Bank Asya	8	1		1	
*Al Baraka Bank	22	1		1	
total Islamic Foregin Banks	**89**	**5**	**0**	**4**	**1**
Bank Melli Iran	41	2		1	1
Byblos Bank of Lebanon	112	4		3	1
*Vakif Bank	15	1		1	
Ziraat Bank	19	2		1	1
Intercontinental Bank	26	3		2	1
Bank of Beirut & the Arab Countries	48	3		2	1
Bank Med	38	3		2	1
IsTurkiye Bank	33	2		1	1
Banque Libano - Francaise SAL	7	1			1
Parsian Bank	11	1			1
Credit Libanais Bank	14	2		1	1
Standard Chartered Bank	16	2		1	1
Francbank	23	2		1	1
MEAB Bank	13	2		1	1
BLOM Bank	16	2		1	1
Audi bank	49	6		4	2
Total Foregin Banks	**481**	**38**	**0**	**22**	**16**
Total of Private Banks	9,397	453	1	271	181
Total	30,162	866	8	528	330

Source: Central Bank of Iraq, Annual Statistical Bulletin

Figure 1 shows the distribution of deposits in Iraqi banks. It is clear that the state-owned banks are dominating the market by having 86% of the total deposit. The total deposits in both private and state-owned banks represent only 10.3% of Iraq's GDP, and that means that the banks make only a limited contribution to economic development of Iraq(CBI, 2015).

Figure 1: Deposit with Commercial banks for 2016.



Source: Central Bank of Iraq, Annual Statistical Bulletin

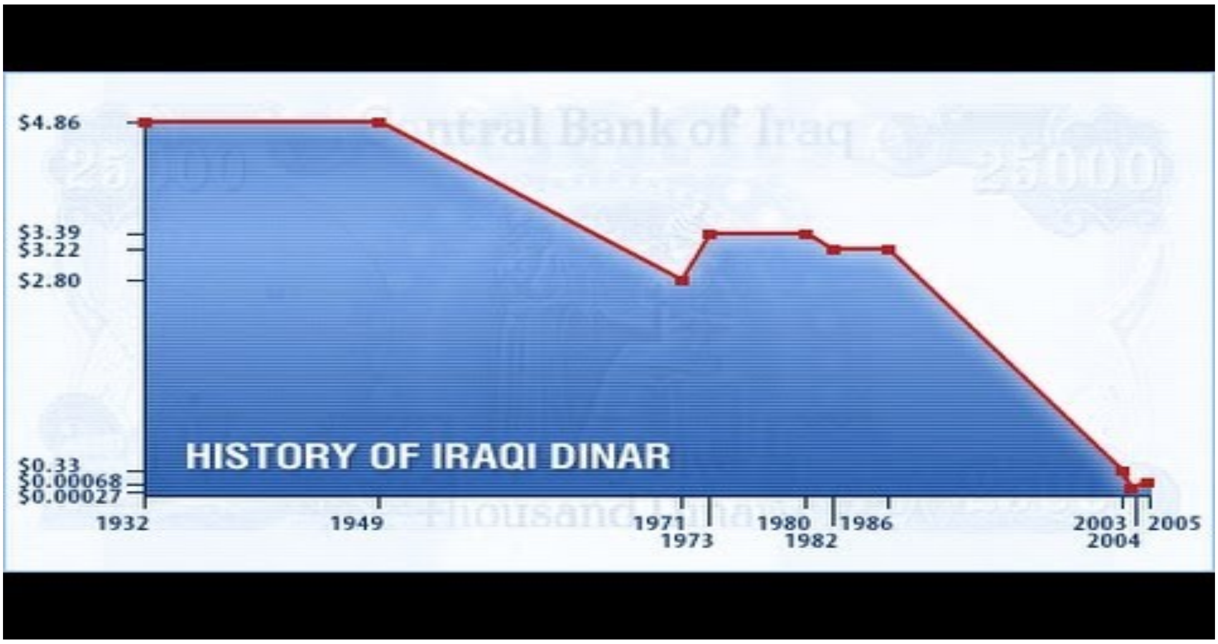
1.2.2 Iraqi financial sector challenges

In 1990, Iraq faced an international sanction issued by the United Nations Security Council. As a result, many countries banned financial and trade relations with Iraq. This heavily affected the Iraqi economy, and the Iraqi people started withdrawing their money from the banks.

To avoid bankruptcy, the Central Bank of Iraq at that time instructed the banks to refuse money withdrawal. This led the Iraqi people to distrust the banking system, and to this day there is a lack of trust in the whole banking system, especially the private banks, and currently only 20% of Iraqi population have bank accounts.

Before 1990, the value of the Iraqi dinar (IQD) was 3 USD. Due to international sanctions, it has declined rapidly. In 2003, the IQD was worth 0.0002 USD. Today, 1,200 IQD is worth one dollar.

Figure 2: Inflation of IQD



Corruption and bribes, alongside instability in the banking system and the political situation, affected the bank's reputation, especially the private banks, and led the Iraqis to distrust the banks, both private and state-owned, while Transparency International ranked Iraq 169th in its corruption index(International, 2017).

E-banking methods available in Iraq are very limited. This has created a major problem within the sector. Although steps have been taken in recent years to fill this gap, the situation is still underdeveloped. In an attempt to enhance e-banking in Iraq, the Central Bank of Iraq (CBI) has issued many legislative initiatives and action plans to enable the banks to start providing e-services such as debit cards and mobile payments. In 2016, the central bank launched the national switch, to connect all the banks together and integrate the bank's systems into one central network.

The CBI's efforts to improve the situation have also focused on the organizational structure, the IT infrastructure, aspects of risk management, and the nature of banking supervision. Efforts have also been made to streamline communication between government authorities and the banking establishment.

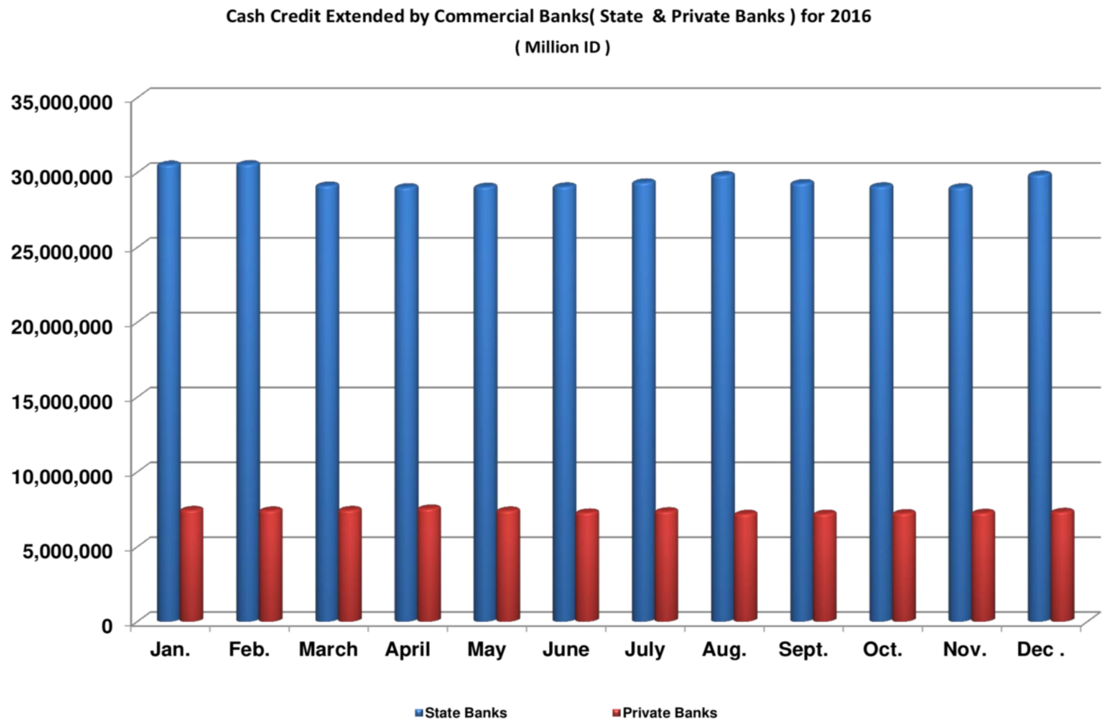
The number of ATMs is still very low, which means that people have to go through lengthy procedures to withdraw money. The limited working hours should also be noted: Iraqi banks normally close at 12:00 or 1:00 pm, which constitutes another obstacle for individuals to conduct banking transactions. However, some banks are starting to offer longer banking hours and set up ATMS, due to increasing demand and competition between the banks.

A strong banking system and ease of getting credit usually come with having a strong economy. In Iraq, bureaucratic inefficiency alongside high interest rates and the requirement of real-estate collateral have been the main reasons for the low cash credit being offered by banks.

Figure 3 shows that the total cash credit offered by banks is about 36 trillion IQD. That represents 19.1% of the GDP, which is considered very low and has a limited impact in economic development, especially if we take into consideration the huge demand for development projects across the country.

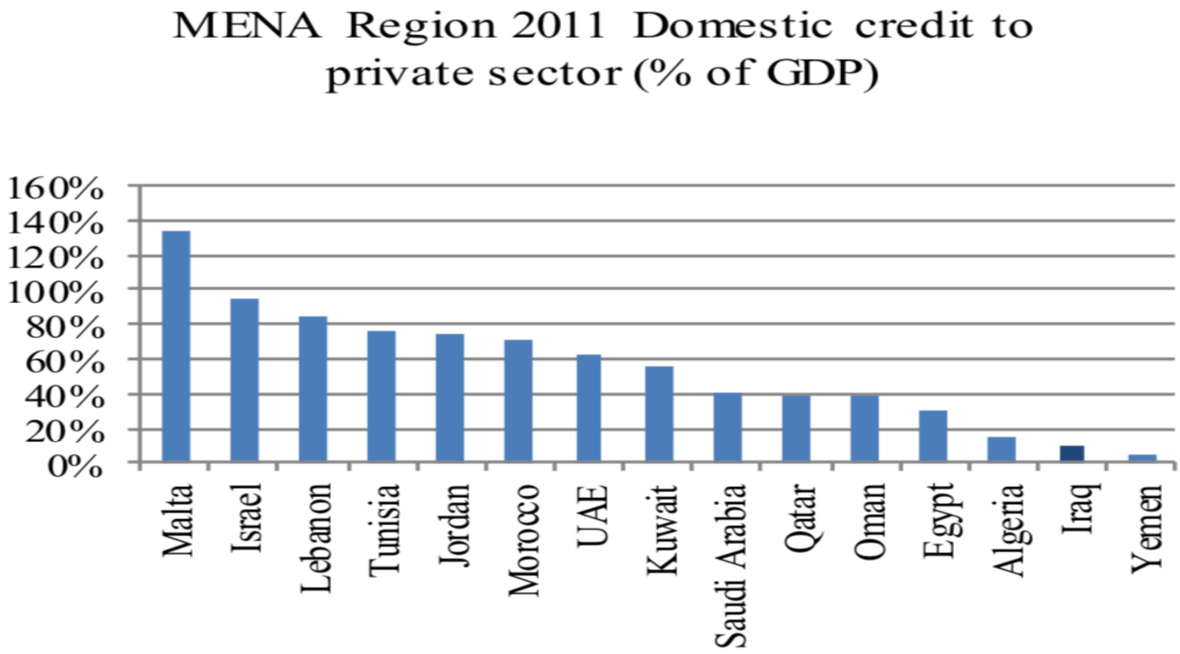
Figure 4 shows the amounts of credit offered to the private sector in the MENA region, with Iraq located at the bottom after Yemen.

Figure 3: Cash Credit extended by commercial banks in Iraq



Source: The Central Bank of Iraq, Annual Statistical Bulletin

Figure 4: MENA region 2011 Domestic credit to private sec



Source: Central bank of Iraq, Annual statistical bulletin, Sansar capital

Summary:
The banking sector is essential to economic growth, especially for a country like Iraq which has been through a decade of instability in all aspects: political, security, and economic.
The seven state-owned banks that dominate the market have weaknesses in their capital and loan portfolios and need immediate action for restructuring to ameliorate their situation. Those banks hold about 86% of total bank deposits and 80% of total bank credit in Iraq.
Due to this situation and the increasing demand for improvements in the banking system, the Central Bank of Iraq is currently working with international organizations such as the IMF and World Bank to improve the legislative environment and to empower the banking sector to offer more developed services and actively participate in economic development. Therefore, many private and state-owned banks nowadays are implementing major modifications in their business model. Those changes are affecting all of the business model building blocks such as the key activity, resources and the value proposition of the banks. We can see many banks offering electronic payment methods with different types of debit cards and other electronic methods that aim to enhance people's ability to manage their money without having to go to the bank. Other banks are deploying new ATMs, aiming to encourage their clients to use their debit cards. Some banks are also trying to develop their human capital and trying to be more customer-centric.
New non-banking companies have also established, with a new business model focused on a niche segment by providing new electronic payment methods for retired people. Other companies are providing IT infrastructure for the banks' recent development and providing online payment systems to be used for the payment of bills.
All of these recent developments provide good ground for innovation research on business models in this sector, which I aim to explore and investigate.

1.3 Problem background

As a result of the above-mentioned fundamental problems many companies fail to implement BMI. Hence this thesis explores the concept of BMI and how it has been applied in the Iraqi financial sector and proposes alternative approaches. The problem was formulated as a series of research questions.

1.4 Research questions

1. **How to define the business model innovation in financial sector?**

   This question will try to find out the understanding of BMI notion within the financial sector and how it is defined.

2. **What is the current status of the financial sector in Iraq?**

   To answer this question, I will focus on understanding the current status of Iraqi financial sector, what is the challenges and the opportunity to the sector.

3. **How do financial firms in Iraq define a Business model?**

   By understanding the Iraqi financial firm's current business model, I will understand their understanding and definition of the BM in general.

4. **What are the starting points for BMI in the financial sector?**

   This question will let me have more understanding about the BMI starting points whether it is internal or external factors that push toward BMI.

5. **How could financial firms in Iraq implement BMI successfully?**

   The BMI process will be discussed within this question and that will help me to identify and understand the necessary steps to BMI implementation.

Chapter 2 Literature Review

2.1 Definition of a Business model

The BM concept has been criticized for being vague and lacking clear theoretical foundation. There has been increasing debate about the definition of elements of a BM and the interchangeable use of the terms “business concept”, “revenue model” and “business strategy” has added to the confusion (Morris et al., 2005). The variability in existing BM definitions is a challenge but Morris et al. (2005) studied the content of 30 definitions and identified three main categories of definition: economic, operational and strategic.

Economic BM definitions are couched in terms of an economic model and ways of generating profit:

In the most basic sense, a business model is a method of doing business by which a company can sustain itself -- that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain. (Rappa, 2000).

Operational definitions deal with a firm’s infrastructure and approach to creating and delivering value to customers, (Timmers, 1998)(P.4) for example defined a BM as “an architecture for the product, service, and information flows, including a description of the various business actors and their roles; and (b) a description of the potential benefits for the various business actors; and (c) a description of the sources of revenues.”

The strategic definition is the dominant type of definition among scholars. Here, a BM describes a business’s overall direction and is focused on strategy (Morris et al., 2005)(P.727) defined a BM as “a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.”

Table 2 is based on (Fielt, 2013) comparison of BM definitions. Some of the early definitions saw a BM as an architecture that contains deferent components and also explain the relationships between those components (Mahadevan, 2000).

(Teece, 2010) defined the concept of a BM in monetary terms, focusing on sustainability. Some definitions are influenced by a particular context or industry. For example (R. Amit & Zott, 2001) focused on how firms could create and capture value through e-business, whereas others related the concept of the BM to technological inventions and discussed the role of BMs in commercialization of new inventions (Henry Chesbrough, 2010).

Fielt (2013, p. 92) stated "a business model describes the value logic of an organization in terms of how it creates and capture customer value". This definition deals with how both economic questions (how the company can capture value for itself and other stakeholders in the network) and operational questions (how value is created by the company) influence the overall strategic direction of the organization and is similar to those of other authors(H. Chesbrough, 2006; Johnson, 2010; A. Osterwalder, Pigneur, Y., In Clark, T., & Smith, A, 2010).

Table 2: A selective overview of business model definition

Author(s)	Definition
Timmers (1998)	Definition of a business model: (a) an architecture for the product, service and information flows, including a description of the various business actors and their roles; and (b) a description of the potential benefits for the various business actors; and (c) a description of the sources of revenues. (p.4)
Mahadevan (2000)	A business model is a unique blend of three streams that are critical to the business. These include the value stream for the business partners and the buyers, the revenue stream, and the logistical stream. (p. 59)
Rappa (2000)	In the most basic sense, a business model is the method of doing business by which a company can sustain itself -- that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain.
Afuah and Tucci (2001)	A business model is the method by which a firm builds and uses its resources to offer its customers better value than its competitors and make money doing so. It details how a firm makes money now and how it plans to do so in the long-term. The model is what enables a firm to have a sustainable competitive advantage, to perform better than its rivals in the long term. (p. 3-4)
Amit and Zott (2001)	A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities. (p. 511)
Tapscott (2001)	A business model refers to the core architecture of a firm, specifically how it deploys all relevant resources (not just those within its corporate boundaries) to create differentiated value for customers. (p. 5)
Chesbrough and Rosenbloom (2002)	The business model provides a coherent framework that takes technological characteristics and potentials as inputs, and converts them through customers and markets into economic inputs. The business model is thus conceived as a focusing device that mediates between technology development and economic value creation. (p. 532) It "spells out how a company makes money by specifying where it is positioned in the value chain" (p. 533)
Morris et al. (2005)	A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets. (p. 727)
Shafer et al. (2005)	We define a business model as a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network. (p. 202)
Chesbrough (2006)	At its heart, a business model performs two important functions: value creation and value capture. First, it defines a series of activities that will yield a new product or service in such a way that there is net value created throughout the various activities. Second, it captures value from a portion of those activities for the firm developing the model. (p. 108)
Johnson, Christensen, and Kagermann (2008)	A business model, from our point of view, consists of four interlocking elements that, taken together, create and deliver value. The most important to get right, by far, is the customer value proposition. The other elements are the profit formula, the key resources and the key processes. (p. 52-53)
Demil and Lecocq (2010)	Generally speaking, the concept refers to the description of the articulation between different BM components or 'building blocks' to produce a proposition that can generate value for consumers and thus for the organization. (p. 227)
Osterwalder and Pigneur (2010)	A business model describes the rationale of how an organization creates, delivers, and captures value. (p. 14)
Teece (2010)	In short, a business model defines how the enterprise creates and delivers value to customers, and then converts payments received to profits. (p. 173)
Zott and Amit (2010)	A business model can be viewed as a template of how a firm conducts business, how it delivers value to stakeholders (e.g., the focal firms, customers, partners, etc.), and how it links factor and product markets. The activity systems perspective addresses all these vital issues [...]. (p. 222)
George and Bock (2011)	[...] a business model is the design of organizational structures to enact a commercial opportunity. (p.99) [...] three dimensions to the organizational structures noted in our definition: resource structure, transactive structure, and value structure. (p.99)

Source: (Fielt, 2013)

2.2 Theoretical Background

The BM concept lacks theoretical foundation (R. Amit & Zott, 2001; Morris et al., 2005; Teece, 2010). Economic theories emphasize on product innovation and assume that any invention can offer value to customers by simply selling it in the market, whereas in a planned economy the government directs economic activities, in this case consumes can only have the output of the system. Both left no place for business model thinking (Teece, 2010).

This theoretical framework fails to recognize that customers do not simply want products, they also want solutions to their needs.

In some cases, firms have to create a new market for their offering and therefore they have to think very carefully about their BM in order to ensure that their activity delivers the intended value and captures part of that value for the firm.

Amit & Zott's (2001) study of value creation in e-business was exceptional in that they used the BM as a unit of analysis in their analysis of capturing value in order to make a profit. They argued that "no single entrepreneurship or strategic management theory can fully explain the value creation potential of e-business" (Amit & Zott, 2001, p. 493) and so they combined several approaches (value chain analysis, economic development theory, resource-based view of the firm, strategic network theory and transaction cost economics theory) to explain the notion of value creation in e-business.

In the next section I consider seven schools of thought on BMs (Gassmann, 2016) and then look more closely at the theoretical framework of Amit and Zott (2001) as this paper is the most frequently cited article on BMs(Fallahi, 2017).

2.2.1 Gaussmann's Classification of Business Models

<u>The process school.</u> This school sees a BM as "a dynamic process of balancing revenue, costs, organization, and value"(Oliver Gassmann, 2016)(P.10). The process school takes two approaches to BMs. The first views them as blueprints that describe the core logic of a firm at a given point in time and explain how the firm creates value and generates revenue(Lecocq, 2010). The second is dynamic and focuses on innovation and changing environments. It assumes that a perfect BM is not exist from the beginning and the firms have to change and reshape their business model to reach sustainability and competitive advantages(Lecocq, 2010).

Cognitive school. According to this school of thought a BM is a "model" or captures the "logic" of how firms do business(Oliver Gassmann, 2016). (Charles Baden-Fuller, 2010) suggested studying the concept from outsides of the management area and to focus on the "term model" which was addressed by other fields like biology and philosophy. He argued the similarities of firms, general behavior, can be studied through analysis and therefore can be copied by other firms as well as to be used as an innovation tool.

Technology-driven school. This school views a BM as a way to commercialize novel technology (Oliver Gassmann, 2016). Teece, (2006, 2007, 2010) investigated technological innovation as a source of value and stressed that the BM is an important aspect of the commercialization of new technologies or products as it explains the core of the firm and how the firms could create value. Teece argued that BMs should be based on several commercialization strategies and also stressed the importance of a firm's dynamic capability: The capacity an enterprise has to creates, adjust, hone and replace business model is important to success. Choices around how to capture value all help determine the architecture or design of a business. Having a differentiated yet effective and efficient (Strategic architecture) to an enterprise business model is critical to success (Teece, 2006).

Strategic choice school. Strategy, BM and tactics are concepts that are always confused by managers. (Casadesus-Masanell, 2013) argued that strategy and BM are related yet different notions, with a BM being the result of strategic choices that have consequences and influence tactics. Casadesus-Masanell argued that although strategic choices determine the BM that a firm uses, once the BM has been chosen it constrains the firm's tactical decisions.

While the BM is available to be copied by the competitors, managers should usually upgrade their business model to catch-up base progress of other firms (Casadesus-Masanell, 2013; Oliver Gassmann, 2016).

Recombination school. In this school a BM is seen as a "recombination of patterns for answering the who-how-what and why questions of the business" (Gassmann, 2016, p.19). (Gassmann, 2014) suggested that a BM should contain four elements, the customer, the value proposition, the value chain and the revenue model, which will answer the who, what, how and why questions of the business.

Duality school. "A business model does coexist with competing business models and requires ambidextrous thinking" (Gassmann, 2016, p.22). According to the duality school exploratory activities are a requirement if one wishes to implement a novel BM, as BMI demands new organizational processes, structures, and capabilities, whereas an operating BM is usually directed toward exploitation.

Activity system school. This school sees a BM as a set of interdependent activities spanning the firm's boundaries (Oliver Gassmann, 2016). The aim of these activities is to deliver value to the stakeholder (Christoph & Raphael, 2008). The study of (R. Amit & Zott, 2001) was one of the first attempts to link value creation to theories (Value chain analysis, Theory of economic development, Strategic network theory, Transaction cost economics).

2.2.2 Accounts of Value Creation

Value chain analysis. Porter's book *Competitive advantages* (1985) introduced the concept of the value chain model and investigated value creation at firm level. The key to Porter's model was the links between the model's elements; the idea was that the model could be used to identify the elements that have a direct impact on the value (called primary activities), these include inbound logistics, operation, outbound logistics, services and marketing and sales. Porter also identified supporting activities that can influence the performance of the primary activities, namely procurement, human resources management, technological development and infrastructure.

A differentiation in any activity in the value chain model is needed to give the firm a competitive advantage.

Amit and Zott (2001) used Amazon.com as an example: building its own warehouses enabled the company to increase its speed of delivery, thus making sales more efficient and increasing the company's value.

Theory of economic development. According to Schumpeter value can be created through technological innovation, new goods, new production methods and creating new markets as well as new supply chains.

Amit and Zott (2001) argued that although value creation in e-business can be described by Schumpeter's model of creative destruction, the e-market also transcends and changes traditional transaction mechanisms and provides new exchange methods. These new mechanisms can also create value and leading to new products and production processes which was not addressed by Schumpeter Model.

Resource-based view (RBV). Firms differ in their access to resources and their capability to use them; finding an effective way of combining resources will create value for a firm. A resource is valuable if it is hard to imitate and hard to be obtain and possession of valuable resources may convey a competitive advantage.

The RVB sees firms as “a set of complementary and specialized resources and capabilities” (Amit & Zott, 2001, p. 497).

The emergence of virtual markets poses a challenge to the RVB because information-based resources have become more important and they are easier for rivals to obtain than the other type of resources, meaning that the sustainability of competitive advantage derived from such resources is questionable (Amit & Zott, 2001).

Strategic network theory. A strategic network can take many forms, for example a joint venture, partnership or long-term relationship with suppliers. Strategic network theory explains how firms can create value through a network and how such networks can be formed. A strategic network can increase the value captured and offered by all the firms involved as it gives them access to new information, technologies and competences as well as enabling them to share risk and knowledge and making it easier to access new markets and increase efficiency. The larger the network the larger the potential gain in value as a result of participation (R. Amit & Zott, 2001; Morris et al., 2005).

Nevertheless, Amit and Zott (2001) argued that strategic network theory cannot fully explain the potential for value creation in e-business, for example a firm could introduce a novel mechanism for carrying out transactions and thus gain a sustainable competitive advantage.

Transaction cost economics. According to the transaction cost economics theory transaction efficiency is the main source of value, since the lower the transaction cost the more value can be captured by the firm. A firm’s trust and reputation can help to reduce exchange and transaction risks and thus transaction costs.

The Internet has a huge impact on transaction costs, which include both direct and indirect costs, such as internal communication, searching for new customers and production costs. Reducing transaction risk by providing reliable information and making ordering easier can increase transaction volume and reduce indirect transaction costs (Amit & Zott, 2001).

There are, however, other sources of value that are not dealt with by transaction cost economics, for instance having exclusive use of a set of resources could generate great value for a firm.

2.3 Source of Value

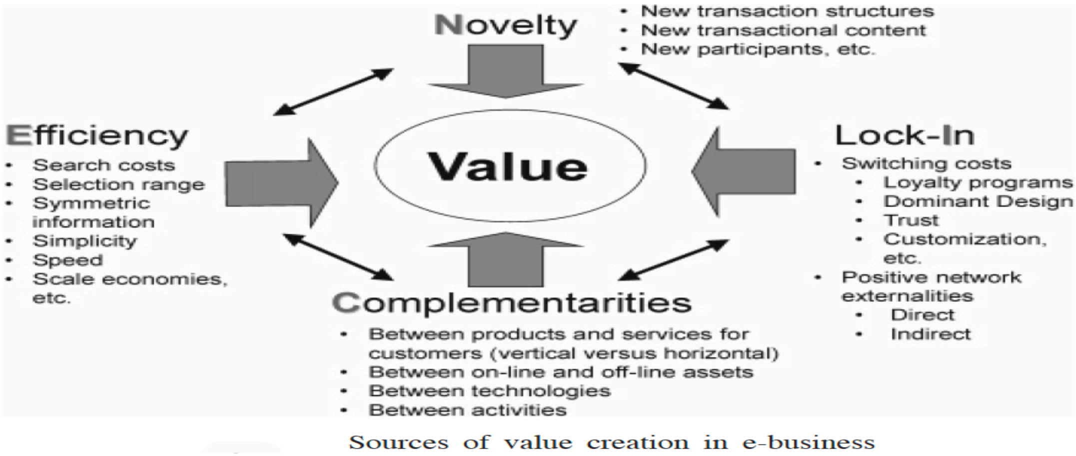
Amit and Zott (2001) identified four drivers of value creation sources, namely efficiency, complementarities, lock-in and novelty (see Figure 5).

Consistent with transaction cost theory, Amit and Zott's (2001) analysis showed that increasing in transaction efficiency reduces costs and hence increases the value captured by shareholders. Efficiency can be increased by reducing the customer's bargaining power and opportunistic behavior by providing comprehensive, up-to-date information and making buying decisions easier.

Complementarities are the second driver of value in Amit and Zott's model and they exist when a company present its core products alongside with other complementary products that may be more valuable to the customer if they have each product separately.

Lock-in refers to switching costs and describes the situation in which customers and partners have an incentive to repeat their purchase and not migrate to competitors. Lock-in can be increased by offering loyalty programs to reward repeated purchase, increasing customers' trust - for example by providing guarantees and having a clear return policy that decreases buying risk - and by providing customized offerings(R. Amit & Zott, 2001; Christoph & Raphael, 2008). Novelty means innovation and whilst innovation has traditionally meant introducing a new product, production process or distribution method, Amit and Zott also addressed the BM as a novel way of innovation, a novelty-centered business model refers to new ways of conducting economic exchange among various participants(Christoph & Raphael, 2008).

Figure 5:Source of value in e-business



Source: (R. Amit & Zott, 2001)

2.4 Components of a BM

The components of a BM are another research topic. Many authors have tried to identify the components of a BM and describe the relationships between them.

The components of a BM are sometimes given different names in studies - key questions, building blocks and elements - and although the term "business model" is popular in boardrooms managers may use it to mean different things (Gassmann, 2014). Hence it is important for scholars to investigate the components of a BM.

Fielt (2013) presented a selective overview of BM elements that is summarized in Table3.

One well-known framework is the BM canvas presented by(A. Osterwalder, Pigneur, Y., In Clark, T., & Smith, A, 2010), this focuses on innovation and design and contains nine building blocks: customer segments, customer relationship, channels, value proposition, key activities, key resources and key partnership.

The four-box framework is similar to the BM canvas, but customer segment is not specified as an independent element instead being embedded in value proposition. The other difference is that the key partner is considered a key resource rather than a standalone element. The four-box framework also goes into more depth in its description of the key process and profit formula group, specifying elements such as rules, norms, target unit margin and resource velocity.

(Weill, 2001) introduced the E-business model framework, stating that atomic e-business model and e-business initiatives may have deferent elements, however with their focus on e-business they stressed on information flows, IT infrastructure and relationship with customers and suppliers.

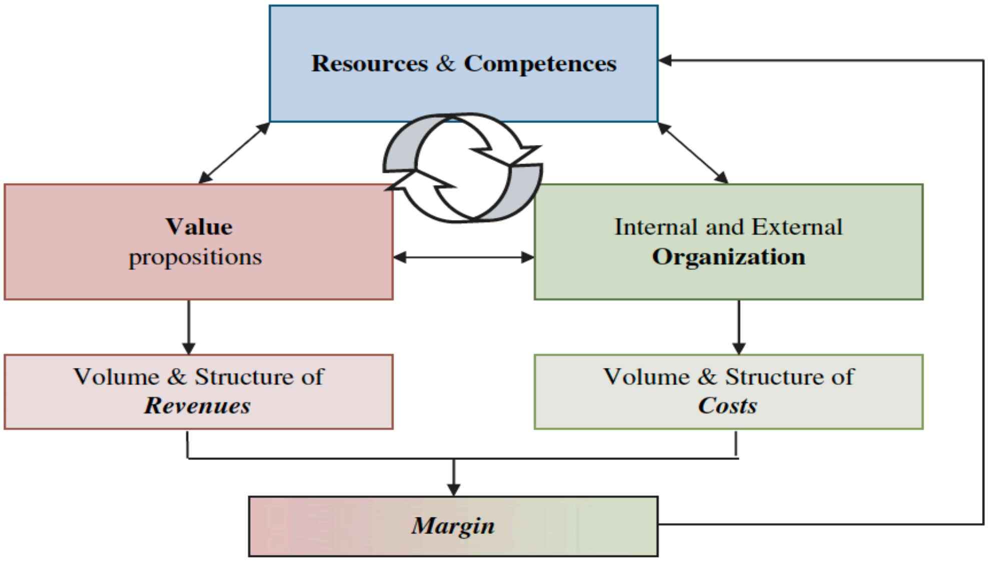
(Morris et al., 2005) framework includes customer segments, value proposition, key resources and financial elements; positioning strategy is treated as an element alongside entrepreneur personal references and ambition for the business. Although Table3 provides an overview about the BM elements, but there are more authors who suggested a similar framework such as (Gassmann, 2014) proposed a model with value proposition, value chain, customer segment and profit mechanism as we can see in Figure 6.

Lecocq (2010) proposed the RCOV model which contains resources and competences(RC), Organization's network and value proposition (OV) as elements of BM as shown in Figure 7. The elements of this model are similar to those of the other frameworks, but the focus is on the dynamic nature of the BM, with interactions between the elements leading to a new combination of resources and hence to innovation.

Figure 6:Gassmann's BM Framework

Source: (Gassmann, 2014)

Figure 7:RCOV Model



Source: (Lecocq, 2010)

In summary, five components of BM can be identified from the literature

1. **Value creation logic**: the activities and methods used to produce and commercialize the product or service.
2. **Product and service logic**: this includes the final product or service.
3. **Marketing and sales logic**: the way customers are reached.
4. **Profit formula**: this includes the revenue and cost models and the firm's method of generating profit from its operations.
5. **Positioning**: this includes the firm's sustainable competitive advantages.

Table 3:A selective overview of BM framework and elements

Author(s)	List/Framework and Elements	
Weill and Vitale (2001)	Business Model Schematics • roles and relationships (electronic and primary – including the firm of interest, its customers, suppliers, and allies). • major flows of product, information, and money • revenues and other benefits each participant receives	Atomic E-business Model • Strategic objectives & value proposition • Sources of revenue • Critical success factors • Core competencies E-business Initiative • Combination of atomic models • Targeted customer segments • Channels to the customer • IT infrastructure capability
Osterwalder (2004); Osterwalder and Pigneur (2010)	Business Model Canvas • Customer Segments • Customer Relationships • Communication, Distribution & Sales Channels • Value Propositions • Key Activities	 • Key Resources • Key Partnerships • Revenue Streams • Cost Structure
Chesbrough and Rosenbloom (2002)	Technology-market mediation • Value proposition • Market segment • Value chain	 • cost structure & profit potential • value network • competitive strategy
Morris et al. (2005)	Entrepreneur's business model • How do we create value? (factors related to the offering). • Who do we create value for? (market factors). • What is our source of competence? (internal capability factors).	 • How do we competitively position ourselves? (strategy factors) • How we make money? (economic factors) • What are our time, scope, and size ambitions? (personal/investor factors)

Johnson et al. (2008); Johnson (2010)	Four-Box Business Model
	
	• Customer Value Proposition
	  • Job-to-be-done
	  • Offering
	• Profit Formula
	  • Revenue Model
	  • Cost Structure
	  • Target Unit Margin
	  • Resource Velocity
		
		• Key Resources
		• Key Processes
		  • Processes
		  • Business Rules & Success Metrics
		  • Behavioral Norms

Source:(Fielt, 2013)

2.5 Business Model Innovation

In today's competitive market companies have to make more effort to survive and maintain their competitive advantage. An advantage is not sustainable if it rests on something other firms could easily imitate.

BMI provides a good ground for companies to achieve a sustainable advantage, although BMI is hard and difficult, it offers greater rewards than other types of innovation (Oliver Gassmann, 2016; Stampfl, 2014).

However, the concept of BMI is still fuzzy and there is no agreed definition (Patrick et al., 2014). In the past, the focus was on product and process innovation; however, this kind of innovation is no longer sufficient today, due to increasing competition, globalization, technological advancement and changing regulations. All these factors make business model innovation a priority for firms seeking to maintain growth and competitiveness (Oliver Gassmann, 2016).

Technological innovation often needs to be matched with BMI if firms are to capture and deliver value to potential market(Teece, 2010).

(Fallahi, 2017) presented a selective overview of BMI definitions, as shown in Table4.

In this definition three approaches were taken by scholars; the first approach treats BMI as a radical modification of the existing business model(H. Chesbrough, 2006); this approach suggests that the innovation should introduce something significantly new(Boer, 2015; Mark W. Johnso, 2008). In contrast, the incremental approach considers any change or improvement in the business model as an innovation provided that the innovation has a large impact (Boer, 2015).

(Fallahi, 2017) The second approach dealing with the newness of business model whether it is new to the industry or to the firm. Boer (2015) and Johnso (2008) argued that the new business model should be game-changing and new to the industry, whereas others state that it can simply be new to the firm itself.

The third approach deals with complexity; change in one BM element (value proposition, revenue stream, cost structure, key activities, key recourses and market segment) is considered a simple innovation, whereas change in more than one element is seen as complex innovation (A. Osterwalder, Pigneur, Y., and Tucci, 2005).

In summary, business model innovation can be defined as a new way of doing business and can be achieved by the reconfiguration of one or more of business model elements or the relationship between these elements(value proposition, revenue stream, cost structure, key activities, key recourses and market segment)(Stephan, Tobias, H., & Oliver, 2017). In general, business model innovation involves changing the business architecture - the content (what), the structure (how) and the governance (who) of the business model activities (Amit & Zott, 2001) - hence, business model innovation requires a change in at least one of the elements or in the relationships between them(C. Z. R. Amit, 2012; Stampfl, 2014). Casadesus-Masanell (2013, p. 464) defined BMI as follows: “At root, business model innovation refers to 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”.

Table 4: Selective definition of BMI. Source: Fallahi, 2017.

Authors	BMI conceptualization
Mitchell and Coles (2003)	"When a company makes business model replacement that provide product or service offerings to customers and end users that were not previously available, we refer to those replacements as business model innovations." (p.17)
Markides (2006)	"Business model innovation in the discovery of a fundamentally different business model in an existing business." (p.20)
Santos et al. (2009)	"Business model innovation is a reconfiguration of activities in the existing business model of a firm that is new to the product service market in which the firm competes." (p.14)
Aspara et al. (2010)	"Initiatives to create novel value by challenging existing industry-specific business models., roles and relations in certain geographic market areas." (p.47)
Demil and Lecoque (2010)	"We view business model *evolution* as a fine-tuning process involving voluntary and emergent changes in and between permanently linked core components, and find that firm sustainability depends on anticipating and reacting to sequences of voluntary and emerging change, giving the label 'dynamic consistency' to this firm capability to build and sustain its performance while changing its business model." (p. 227)
Björkdahl and Holmén (2013)	"A business model innovation is the implementation of a business model that is new to the firm". (p.214) "We argue that a business model innovation is a new integrated logic of how the firm creates value for its customers (and users) and how it captures value." (p.215)
Casadesus-Masanell and Zhu (2013)	"At root, business model innovation refers to the search for new logics of the firm and new ways to create and capture value for its stakeholders; it focuses primarily on findings new ways to generate revenues and define value propositions for customers, suppliers, and partners." (p.464)
Khanagha et al. (2014)	"Business model innovation activities can range from incremental change in individual components of business models, extension of the existing business model, introduction of parallel business models, right through to disruption of the business model, which may potentially entail replacing the existing model with fundamentally different one." (p.324)
Massa and Tucci (2014)	"We propose that BMI may refer to (1) the design of novel BMs for newly formed organizations, or (2) the reconfiguration of existing BMs" (p. 424)
Zott and Amit (2015)	"The 'newness' of the business model may refer to any of its design elements— that is, content, structure, or governance. Because of the systemic, interconnected nature of the business model, a change in any of these elements may engender further changes at the system level [...] The more wide-ranging the changes at the system-level the more encompassing (and radical) the BMI." (p. 397)
Clauss (2016)	"Business model innovation relates to the innovation of a system of products, services, technology, and/or information flows that goes beyond the focal firm." (p.3)
Saebi et al. (2017)	"Business model innovation is defined as the process by which management actively innovate the business model to disrupt market conditions." (p.569)
Foss and Saebi (2017)	"We define BMI as designed, novel, nontrivial changes to the key elements of a firm's business model and/or the architecture linking these elements." (p. 201)
Spieth and Schneider (2016)	"[we] conceptualise business model innovation as a 'new-to-the firm' change that affects at least one out of three business model dimensions: value offering, value creation architecture, and revenue model logic"

2.6 Barriers to Business Model Innovation

One might ask why more firms do not engage in business model innovation; the answer is that there are great barriers to business model innovation (Amit & Zott, 2001). Stampfl (2014) argued that attempting BMI may result in conflict between the traditional and new configurations of a firm's assets, when the company already have a successful BM, it is always allocating the capital toward that profitable BM, while the experiments to establish new BM have a high uncertainty with initially low margin and the conflict could rise from such conflict (Chesbrough, 2010).

Chesbrough and Rosenbloom (2002) and Stampfl (2014) suggested that other barriers to BMI might include a cognitive barrier such that the firm's existing logic of operating the business may affect the information flow and may act as a filter, thus, information that differ from the existing logic could be neglected and only that information which is consistent with the existing BM is always circulated and shared, hence firms could miss potential opportunities for BMI.

The other cognitive barriers may be related to poor leadership, for example the top management lacks the vision to carry through BMI and do not know how to allocate the required resources, structure and process for a new BM (Fallahi, 2017; Johnso, 2008).

2.7 Business Model Innovation Process

The BMI process can be defined as a logical sequence of steps whose aim is to change one or more of the BM elements; it is a process of experimentation carried out in uncertain and complex business environments in order to provide guidance to the firms to changes its existing business model (Stampfl, 2014).

Business model innovation might be prompted by external or internal factors, as shown in Figure8. The external factors could include competition, technological advancement and changing regulation and internal factors could include introducing new product or acquiring new resources(Berbegal-Mirabent, 2012; Davidson, 2013; Mark W. Johnso, 2008; Stampfl, 2014).

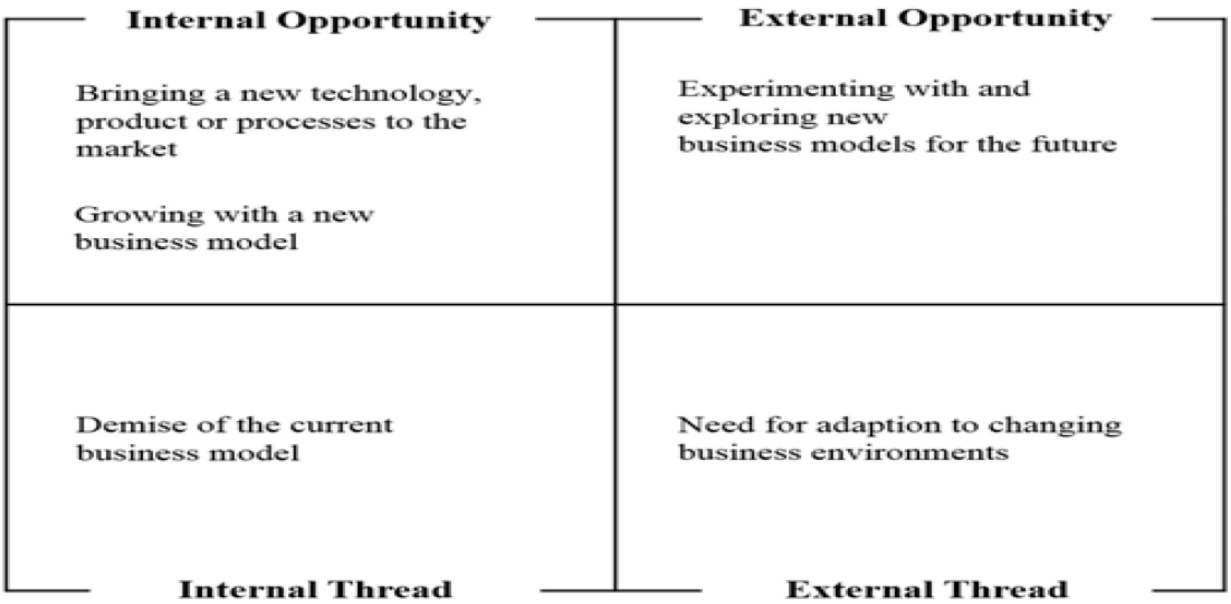
Johnso (2008) and Stampfl (2014) provided starting points for BMI; they argued that firms innovate under the following circumstances:

1- To introduce new technology to the market;
2- Because there is an opportunity to serve new segment which was previously underserved because of economical or technological factors;
3- The opportunity of creating new customer's need and creating new demand.
4- Shifting from commodity;
5- Expiration of the existing BM.

Johnso (2008) also suggested that firms should not start experimenting with BMI unless the potential gains are sufficient to justify the effort and time needed to conduct experiments. Johnso (2008) also argued that the new model should be new or game-changing for the industry or the market and provided a set of questions that can be used to evaluate the need for a new BM:

- Can you nail the job with a focused, compelling customer value proposition?
- Can you devise a model in which all the elements of BM work together to get the job done in the most efficient way possible?
- Can you create a new business development process unfettered by the often-negative influences of your core?
- Will the new business model disrupt competitors?

Figure 8:Starting points for BMI



Source: Stampfl, 2014.

Chesbrough (2010) suggested that a map should be constructed to help managers to understand the elements and processes of a BM and the relationships amongst the elements, so that they can test alternative assumptions and study different options before taking the final decision about the new BM. A tool that can be used for this is the Business Model Canvas developed by(A. Osterwalder, Pigneur, Y., In Clark, T., & Smith, A, 2010), which proposes 9 building blocks for the business model(Segmentation, Channels, Value proposition, Key resources, Key activities, costumers relation, key partnership, cost structure and revenue stream). Using tools such as maps is very useful but cannot guarantee an experiment’s success, there is a need for good organization and commitment from leaders with enough authority to conduct such experiments (Chesbrough, 2010).
(Laudien, 2016)(P. 423) argued that “business model change is usually not a process that initiated top down but rather a learning process” and split BMI into four phases.

Phase One: Monitoring the Business Model Fit Beyond Industry Level

In this phase firms need to analyze their business environment. They need to study the development of the ecosystem in which they operate and also look outside the scope of their own industry in order to identify market-based opportunities and threats. Firms need to have information-gathering systems and processes for analyzing the information they capture.

Phase Two: Business Model Development

In this phase firms usually start changing one element of BM, having carefully analyzed the business environment in phase one. The initial change in this step usually concerns the

Phase Three: Open up the BM

In this phase more, changes to the business model arise as a result of the changing of one or two elements in phase two; these changes usually require the company to open up and collaborate with a wider network.

Phase Four: Deliberate Business Model Innovation

In this phase firms make radical changes to their business model; they cannot do this if they have not gone through the preceding three phases, as these earlier phases give them a deep understanding of the market and innovation requirements, as well as the working mechanisms of their business model. The earlier phases also enable a firm to develop stronger partnerships and thus allocate resources so as to create value for all the shareholders, including the partners.

(Eurich, 2014) introduced a six-step model of BMI: (1) Decide the business's mission. (2) Analyze the relationships between the BM elements and different stockholders. (3) Analyze alternative design options. (4) Create different BMs. (5) Choosing one of the BMs created in step 4. (6) Testing this BM and conduct experiments.

In summary, business model innovation is a process of experimentation and continues learning whereby a company redesigns its core competences and resources in order to create new business model that deliver more superb value to the costumer and where the company can sustain its position and profit.

2.8 Literature review Summary

Authors studied the business model in three direction , one is at the economic level and focus on the monetary aspects and explain how the firm could sustain itself and generate profit while the second direction is at operation level and this shows how the firm create and deliver its value this direction focus on the recourses and activities needed to create and deliver the value to the costumers, the third direction is dealing with the strategic aspect of the business model, it is encompass the first two approaches by describing the overall strategic direction of the firm on how to do the business.

(Morris et al., 2005)(P.727) defined a BM as "a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets."

Some definitions are influenced by a particular context or industry. For example (R. Amit & Zott, 2001) focused on how firms could create and capture value through e-business, whereas others related the concept of the BM to technological inventions and discussed the role of BMs in commercialization of new inventions (Henry Chesbrough, 2010).

Amit & Zott's (2001) argued that "no single entrepreneurship or strategic management theory can fully explain the value creation potential of e-business" (Amit & Zott, 2001, p. 493) and so they combined several approaches (value chain analysis, economic development theory, resource-based view of the firm, strategic network theory and transaction cost economics theory) to explain the notion of value creation in e-business.

The luck of a clear theoretical foundation regarding the business model is still exists in the scientific articles although, many authors have been trying to put an agreed on theoretical foundation for both the business model and business model innovating such as Porter in his book *Competitive advantages* (1985) introduced the concept of the value chain model and investigated value creation at firm level and Schumpeter in his theory of economic development argued that value can be created through technological innovation, new goods, new production methods and creating new markets as well as new supply chains, while, Amit and Zott (2001) identified four drivers of value creation sources, namely efficiency, complementarities, lock-in and novelty.

The components of a BM are another research topic. Many authors have tried to identify the components of a BM and describe the relationships between them.
.One well-known framework is the BM canvas presented by(A. Osterwalder, Pigneur, Y., In Clark, T., & Smith, A, 2010), this focuses on innovation and design and contains nine building blocks: customer segments, customer relationship, channels, value proposition, key activities, key resources and key partnership.

In summary, five components of BM can be identified from the literature

1. **Value creation logic**: the activities and methods used to produce and commercialize the product or service.
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4. **Profit formula**: this includes the revenue and cost models and the firm's method of generating profit from its operations.
5. **Positioning**: this includes the firm's sustainable competitive advantages.

The business model innovation is seen as ground for companies to achieve a sustainable advantage due to the increasing , although BMI is hard and difficult, it offers greater rewards than other types of innovation (Oliver Gassmann, 2016; Stampfl, 2014), some author argued that the BMI should be radical and introduce something scientifically new while other considered any modification to one or more of the Business model building blocks is an innovation.
In summary, business model innovation can be defined as a new way of doing business and can be achieved by the reconfiguration of one or more of business model elements or the relationship between these elements(value proposition, revenue stream, cost structure, key activities, key recourses and market segment)(Stephan, Tobias, H., & Oliver, 2017). In general, business model innovation involves changing the business architecture - the content (what), the structure (how) and the governance (who) of the business model activities (Amit & Zott, 2001) - hence, business model innovation requires a change in at least one of the elements or in the relationships between them(C. Z. R. Amit, 2012; Stampfl, 2014).

As I mentioned above the business model innovation is hard to achieve due to many barriers for example, BMI may result in conflict between the traditional and new configurations of a firm's assets, Chesbrough and Rosenbloom (2002) and Stampfl (2014) suggested that other barriers to BMI might include a cognitive barrier such that the firm's existing logic of operating the business may affect the information flow and may act as a filter, thus, information that differ from the existing logic could be neglected and only that information which is consistent with the existing BM is always circulated and shared, hence firms could miss potential opportunities for BMI.

The business model innovation process is a risky experiment and the firm need to allocate time and resources to implement the new BM in high uncertainty within the environment, if the firm is already successful the process will be even harder as a decision should be made whether to use these resources in the exist profitable BM or to be used in the new experiment.

Chapter 3 Methodology

3.1 Methodology

Research strategies can be divided into quantitative and qualitative methods. Quantitative methods provide quantitative data suitable for statistical analysis and hypothesis testing, whereas qualitative methods involve using words to describe the relationship between the theory and research(Yin, 2018).

According to(Sekaran, 2013) research can be divided into:

1. Exploratory research. Aims to find insights and assess a problem. The researcher may use any of the following data collection methods: literature review; focus group discussion; interviews with experts.
2. Descriptive studies. The aim of this kind of research is to study the features of a problem and find trends in events or situations.
3. Explanatory studies. This kind of research is intended to improve understanding of a problem and its causes and explain causal relationships between variables.

The aim of the research presented in this thesis was to identify, describe and explain business model innovation (BMI) in the financial sector in Iraq. A secondary aim was to explain how financial firms can implement BMI successfully. Qualitative techniques were deemed appropriate, because the research was not intended to examine or test any theories but, instead we are creating an overview of a phenomena that has not been researched yet in Iraq and when there is a lack of relevant data the qualitative research will enable me to get extensive information and understanding on the subject of study.

The multiple case study approach was used in this research as multiple case studies provide more compelling and more robust evidence than a single case study and enable findings to be replicated, thus demonstrating their reliability.

3.2 Interview design

According to Yin (2018), it is important to use open-ended question so that interviewees can respond in their own words. Responses should then be coded and labeled to identify patterns and relationships among the answers.

In-depth interviewing is often used for qualitative research and is considered a reliable data collection method. The informal style of the semi-structured interview facilitates discussion and enables interviewees to express themselves more freely than a structured question-and-answer format. This method allowed the exploration of managers' experiences. Qualitative interviewing is also better suited to eliciting rich information than a highly structured interview format.

3.3 Sampling design

The website of the central bank of Iraq lists almost all the financial institutions operating in Iraq, it enabled me to identify all the stakeholders in the financial industry, such as banks, mobile banking provider, credit companies (loan providers) and payment solution providers. I then screened all those firms using the criteria listed below. Firms which met at least one criterion were considered case study candidates.

1. The firm has implemented or is currently implementing business model innovation in the Iraqi market.
2. The firm is already started with an innovative business model in the Iraqi market.
3. The firm has been operating in other markets and has recently entered the Iraqi market.

Eight firms met at least one of these criteria: one mobile money firm, one credit company, three banks and three payment solution providers.

The interview questions are divided into four main categories and were intended to elicit information about the topics listed below:

1. Business model: the objective of this part of the interviews is to find out what business models (BMs) are commonly used in the financial sector in general and the Iraqi financial sector specifically and to identify the main building blocks of BMs within the financial sector.
2. Current situation of Iraqi financial sector: the objective is to learn about current trends in the sector.

3. Business model innovation: the objective of this portion is to learn about BMI in the financial sector: the starting points; the process of BMI; the roles of technological advances and increasing competition and regulation.

3.4 Data Analysis

Yin (2018) recommends the pattern-matching approach for analyzing case study evidence:

1. Categorization. The first step is to categorize and classify the collected data as this will help the researcher to analyze the data further.
2. Arrange and display the data in different ways. This step will help to rearrange the data and classify it using the categories identified in the first step.
3. Identification of patterns and relationships. In this step the data are coded and labeled to help the researcher to identify patterns, relationships and key themes and to determine the meaning of the data set.

Chapter 4 Research finding

In this chapter of the research I will introduced the finding of the qualitative semi-structure research interview, the chapter will follow the same order of the interview.
The first section is the case analysis, the second section is about the current situation of the Iraqi financial sector, the third section deals with business model definition and component, the fourth section covers the business model innovation within the Iraqi financial sector, and the fifth section deals with the starting points of business model innovation, while the last section covers the business model innovation steps.

4.1 Interviews

Interview A (International fund manager and credit company)

1. How would you describe the financial sector in Iraq?

We are concerned about corporate financing and how banks operate in the country. Banks in Iraq do not fulfil their roles in lending and supporting the economy through the financing of projects and companies. Banks are generally neither developed nor efficient, and they lack the resources necessary to establish a good banking network. Moreover, legislation and controls have not been well-developed by the Central Bank; this is especially evident when one considers a few recently filed bankruptcies (e.g., DES).

2. What are the challenges facing your business?

A second challenge we have is our focus on small businesses; many of these operate with a high degree of informality and are not very structured. As a financier, it is not easy to assess how much risk is involved when you lend to those businesses. There is significant information asymmetry, which all banks have to deal with at some point; the probability of default must be assessed, but if information about those businesses is not readily available it is difficult to estimate that probability of default. Therefore, it is difficult to borrow money and, because these businesses are neither prepared nor structured and are informal, the information asymmetry is quite high. You cannot base your decisions on resources available to other banks in more developed markets, such as a credit register or other sources of information, financial information, management accounts, or annual reports. A lot of companies do not have these, so that's a challenge.

The third challenge is finding talent to work for us who have expertise and skill, and who are willing to operate in a difficult environment. Lots of talent left Iraq; thus, finding skilled employees is a challenge.

3. Where do you see your contribution to developing the sector?

I think our biggest contribution will be a demonstration of the facts. I think demonstrating the credit-worthiness of local businesses might convince the bigger financial system and the key players (i.e., the banks) to start taking the sector seriously and to see it as an opportunity to be profitable. We are a niche player that operates in a very big financial sector which tends to be dominated by banks and non-bank financial institutions. We are relatively small because we are financing a relatively small number of clients, but we can make a much bigger demonstration, showing that this is a sector that is worthy.

4. How would you describe your business value proposition and added value to the sector?

Our business value proposition is different for different clients. We communicate our business value proposition to investors because we operate as a fund manager; our value to them is that we are able to place their money into segments of an emergent market that are significant or can create significant impact. For example, a development financier who stimulates private sector growth in an emergent market like Iraq cannot reach those businesses themselves; they need an intermediary and some of the segments of the Iraqi market are not well-served by banks. They need intermediaries other than banks. As a result, our value proposition to them is that we place the money and provide sustainable return, but, more importantly, we generate significant impact by growing the SME sector and creating employment.

For SMEs our value proposition is different. Our proposition is that SMEs work with us and we help their businesses to be more successful. We reduce the chance of failure. A lot of businesses do fail, whether in Iraq or somewhere else, because small businesses are small, vulnerable, and dependent on a small amount of people, assets, and clients. It is important that those businesses are financed by somebody who can help them become more successful and help them to grow. Our value is about making those businesses more successful.

5. Describe your business model (BM) and how it reflects the challenges the sector is facing.

In essence, our BM is like that of any financial intermediary. We use the capital of investors and invest it in those businesses that need that capital. We intermediate between investors and SME businesses.

6. Describe your business model components.

The financial sector is not different from other sectors. We deliver products and services to our clients. The product is a financial product (i.e., long-term growth finance) and the service is being a business support, which is almost like mentoring or advice services. We bundle a product with a service and that creates our value proposition. We can create structured finances for businesses and we integrate this with business support to make that business more successful. We do this by using our resources, such as human resources, alongside our process and systems, and, of course, this results in cost and profit.

7. How would you define the innovation taking place at your firm?

That is a very good question. In a way, what makes us innovative and unique is our credit process because, essentially, what we do is assess credit risk; if credit risk can be properly assessed and priced, you can make a margin on it. Our innovation sits in the way we assess credit risk because we cannot rely on traditional methods of assessing credit risk. All the banks will assess credit risk based on historic financial performance; this means that it has to be reflected in all financial statements and the bank will lend based on assets. Our segment of the market does not have those historical records and normally does not have significant assets. If you still want to do business with those clients you have to come up with new, innovative ways of assessing and mitigating risks. I would consider our business support to be the biggest innovation that we bring to the table.

8. Do you agree with the statement "product innovation cannot be successful without business model innovation in the financial sector?"

Yes, I would say so.

9. Do you think innovation is critical to your business? Why?

Yes. I think it is essential to what we do. However, implementation is also very important. Therefore, one has to have an innovative way of doing business, but it also very much depends on how you implement this innovation.

10. What do you think is the starting point (trigger) for innovating your business model?

Our business started when we saw an opportunity in the market to serve an underserved market; we came up with an innovative way to capture that opportunity. Thinking about it, I would say what triggered it was unmet demand in the market.

11. What is the role of technological advancements in business model innovation?

Technology innovation does play a part, but maybe not so much in our business. If we were to talk generally, advancements in technology—for example, in banking payment systems—can be very disruptive. However, in our BM, I would say that technology is more of an enabler.

12. What is the relation between business model innovation and increasing competition in the Iraqi financial sector?

I think that competitive pressure requires continuous innovation. Otherwise, what you have will be copied; then other people will come up with new things and you will lose out. However, we operate in a market with unmet needs, so we face little competition. For us, competing has not been a real trigger to innovate.

13. In your opinion, what are the most important steps to adapt and innovate a business model in the financial sector?

I think the first step would be a burning platform. You need some sort of crisis or things to not go as well as they should. Innovation is about change and it is hard to initiate change. You need some sort of crisis and you need the commitment of senior management. The other step is to make the resources available to that innovation or change. I think it is also important to have a corporate culture of innovation, where innovation is encouraged and to have the human resources to be ready for the change.

The process is like an experiment. For example, in our business support BS program , you need first to find a justification for the change, such as the problem statement. Then, you need to really think about that problem and make sure that it is relevant to other business objectives. Once you have the problem well-defined, you need to go through a root cause analysis to understand the cause of the problem. Then, you can start thinking about how to solve the problem. You could have a pilot or experiment where you test the new BM, evaluate the results, and then decide to roll it out. It is a step-by-step approach. In the end, the system and the process need to support the change and the new BM, and I think we need to do that last, because if we focused too quickly on the systems we might miss the innovation. The system needs to support innovation, not define it.

14. What are the organizational barriers to implementing successful business model innovation?

I think I mentioned that culture is a big barrier. If the culture is not conducive to change or to innovation, that is very difficult. I think people do not like change. They will say they like it, but there is some fear of change. People themselves can be obstacles. Also, systems and legacy processes can get in the way of change.

15. What are the sector barriers to implementing business model innovation?

Regulation may present a barrier because many experiments could be killed off by the regulation authority. Regulation is a major barrier to innovation and this is quite unique to the sector.

<u>**Interview B (Bank)**</u>

1. How would you describe the financial sector in Iraq?

As a regional bank, we see Iraq as an opportunity. We would not have come to Iraq in this difficult security situation except for the reason that the financial prospects will be good; this is an opportunity for the future that we want to capture. However, the current situation is almost a disaster. The infrastructure needs to be developed and that is what the CBI is trying to do. Objectively, the financial situation in the whole region is not stable, but, if we talk financially, we believe the Iraqi market is promising.

2. What are the challenges facing your business?

Security is the main challenge. Banking culture doesn't exist in Iraq and there is distrust. Also, businesses do not have a banking culture. For example, there are no credible financial statements that businesses can present to the banks. Human resources are also a challenge. When we entered the market, we recruited staff from elsewhere who had experience with other Iraqi banks. The working mentality needed to be developed. What we are doing now is hiring recent graduates and training them. We also need to be very selective to hire the right talent.

3. Where do you see your contribution to developing the sector?

Our contribution is developing staff; this will affect the market in general because in the future more international banks will enter the market. Therefore, there will be an increased demand for experienced staff. We also contribute to the economy by generally offering value such as letter of credit (LC), short term loans (6 months), and other products.

4. How do you describe your business value proposition and the added value to the sector?

Our value is our high-quality banking product and excellent service. We also provide e-payments, such as different types of cards.

5. Describe your business model components.

We target the public and private sectors. In the private sector, we target the big companies. One thing that we are doing differently is customer service; we offer excellent service to our clients and this image of the bank can brings more clients. To deliver value, we need resources such as human resources and other parties involved in banking-related activities. This will enable the bank to make profit.

6. What about key partnerships?

I do not think there is any partnership that could be considered a key component because there are many providers that we can switch to; we have partners, but no key partner.

7. How would you define the innovation taking place in your firm?

Basically, we use classic innovation as product innovation. We also have BM innovation. However, we do not have innovations such as online banking or online money transfer in Iraq yet; we did not implement this as we think it will not be profitable because the banking culture in Iraq still needs development.

8. To what extent do you think that business model innovation (BMI) is more important than classic product innovation in the financial sector?

It is important to cater for the new generation who are using the Internet and smartphones, and in order to widen your client base you need BMI. However, both should be in parallel because your business needs to be based on a good classic product.

9. What do you think is the starting point (trigger) for innovating your business model?

Technology advancement is one of the most important triggers, such as ATMS and online payments. Competition is also a starting point because it is always needed to enhance our products. Regulation can sometimes be considered a starting point; sometimes it has positive impact and sometimes its impact is negative.

10. In your opinion, what are the most important steps for adapting and innovating a business model in the financial sector?

First, we need to study the new innovations and obtain the right approvals. Then, we need to adopt the systems; sometimes these systems do not fit with the organization process and culture. It is hard to change culture. Finally, if it is an experiment, it might not be successful.

Interview C (bank)

1. How would you describe the financial sector in Iraq?

The Iraqi financial sector is an emerging market and a promising one. The market is not developed yet because of the Iraqi situation. In general, the financial sector has had great development since 2000. Technology development has disrupted the financial sector in general. The main challenge in Iraq is the security situation.

2. What are the challenges facing your business?

The security situation is one of the main challenges. The second challenge is the distrust of the people which is because of years of bad experiences with the banking sector. For example, people cannot withdraw their deposits from some banks and that affects the trust factor. At present, people in Iraq prefer to save their money in their houses. It is the responsibility of the Central Bank of Iraq and the Iraqi Private Banks League to set a strategy to increase people's trust in the sector. They have already started this, but more needs to be done because the sector is promising. Human resources are another obstacle; we are overcoming this with our training program which teaches the required skills.

3. Where do you see your contribution to developing the sector?

Our contribution is located in the retail banks. We are trying to develop this aspect through many steps. For example, we are targeting college students; the new generation tend to be more open to new technologies such as online banking and debit cards.

4. How would you describe your business value proposition and the added value to the sector?

Our value is based on trust. We are trying to increase the trust of people in our services. We provide high quality banking services within our network and that enables our customers to transfer money internationally more easily than at other Iraqi banks.

5. Describe your business model and how it reflects the challenges the sector is facing.

To describe our BM, I would start with the customer relationship. We use this relationship to increase the trust of our customers. We train our staff to offer high quality service and that will affect our customer base positively and convert the payments into profit, especially because we are operating in a high cost environment, with regard to, for example, security and training staff. We generally have two customer segments: B2C and B2B. We leverage key resources and activities from our HQ (which is located outside of Iraq) to deliver value in Iraq.

6. How would you define the innovation taking place in your firm?

Our innovation involves targeting new customer segments. We are trying to serve a new customer base with lower risk. That will definitely increase our profit.

7. To what extent do you think that business model innovation is more important than classic product innovation in the financial sector?

Classic product innovation is more important, and it depends on the market. For the Iraqi market, I think customers need to be more comfortable with classic product innovation; then BMI can be introduced.

8. Do you agree with the statement "product innovation cannot be successful without business model innovation in the financial sector?"

Sure. Innovation in segmentation is especially needed.

9. Do you think innovation is critical to your business? Why?

I agree that innovation is critical. I am referring to both product and BM innovation because you need to come up with new ideas and ways to increase your value and profitably.

10. What do you think is the starting point (trigger) for innovating your business model?

Technology is one of the triggers. When new technology came into the sector, the BM needed to be adapted so that it could be used with this new technology. Competition is not relevant in Iraq because the market is still emerging and underdeveloped, but, in general, it could be one of the triggers. Regulation is not a trigger because it is already there, and we already work within those regulations.

11. In your opinion, what are the most important steps for adapting and innovating a business model in the financial sector?

First, we need to have the right people to implement innovation. We also need to make sure that all the employees are ready to accept that change. The second step is to have an organizational culture that accepts the new innovation and is committed to it; the system and process alignment has less effect on the innovation, but to some degree it has to be there.

Interview D (bank)

1. How would you describe the financial sector in Iraq?

The financial sector generally began to get better during the last year. It is on the right path. It cannot fully recover unless the dollar actuation is cancelled. The bank can earn huge profit from buying and selling USD, and due to these fast profits, the banks do not focus on real banking activities. The banking system needs to take many steps to recover.

2. What are the challenges facing your business?

Banking culture does not exist yet. Regulation still needs to be developed to cope with new developments. The other challenge is the lack of talented staff. The security situation is also an important challenge.

3. Where do you see your contribution to developing the sector?

Our bank is trying to develop the banking sector in Iraq by undertaking many initiatives with the Iraqi Private Banking League. We train our staff to develop a banking culture and we participate in many conferences and workshops.

4. How would you describe your business value proposition and the added value to the sector?

We may not promise the highest profit to our customers, but we are focusing on our brand and image. We provide benefits rather than higher returns, such as being a trusted bank to deal with, high quality services, other banking services such as MoneyGram, speedy services, and we have widened our ATM network. The other new innovation is a movable branch. We are also targeting newly liberated areas such as Mosul. Our main goal is to increase the banking culture and to improve the people’s trust in the banking system. We are also trying to hire the best talent, whether it is local or international. That helps us to obtain international certification for our staff. We promise our customers continuous improvement alongside moderate returns.

5. Describe your business model and how it reflects the challenges the sector is facing.

First, I would say the BM is a strategy that needs to be studied and approved by the board. We need to identify the target segment for our business and it should be aligned with the overall mission and vision of the bank. During the study phase, we should examine all the competitors' offerings and existing services. Many departments will participate in the analysis stage. The BM is about experiments we need to run. During the test, we might find that the model is not working. We receive feedback and elaborate the model until we find the best way to deploy it and, sometimes, it is not successful.

6. Describe your business model components.

These include market segmentation, channels, value proposition, key resources to perform the key activities, profit formula, and, of course, the cost structure. Partnership is another important aspect of the BM.

7. How would you define the innovation taking place in your firm?

Innovation is doing something new. It could be a product or service, or even a way to do business.

8. To what extent do you think that business model innovation is more important than classic product innovation in the financial sector?

Both the product and the business model are important. For example, we have found new ways to build new branches that are approved by the Central Bank. At the same time, it cost us half of the normal branch construction cost because we used new construction materials that reduced the cost and the construction time. In Iraq, the BMI is important and it could be more profitable than classic innovation.

9. Do you agree with the statement "product innovation cannot be successful without business model innovation in the financial sector?

Yes.

10. What do you think is the starting point (trigger) for innovating your business model?

Technology advancement is one of the starting points. We need to accommodate new ways of e-banking. Regulation also sometimes forces us to innovate. For example, the capital requirement may force some banks to merge.

11. What is the relation between business model innovation and increasing competition in the Iraqi financial sector?

In Iraq, competition is low.

12. In your opinion, what are the most important steps to adapt and innovate a business model in the financial sector?

We first need to examine our resources and decide if we can do the BMI internally or if we need to bring in new resources. For many innovations we need to create a new partnership. We also need leadership commitment. We need to have the ability to learn from our mistakes. The systems and staff need to be ready for the innovation; the system in the BMI has less importance than other steps because the systems should exist even before the innovation. In banks, systems have a time scale of five years, so it exists even before the innovation takes place, especially if you have good long-term strategy.

13. What are the organizational barriers to implementing successful business model innovation?

The organizational culture defines how the firm used to do its work; therefore, most of the time the culture needs to change to assist innovation. Sometimes, higher management is not supportive of innovation. Other barriers can include the staff who always resist change and feel uncomfortable with innovation; this can be considered a very high barrier.

<u>Interview E (E-payment provider)</u>

1. How would you describe the financial sector in Iraq?

The financial sector is getting better in Iraq. New steps from the CBI are working to improve the infrastructure of the banking systems in Iraq, such as the national switch where all the banks can integrate their systems. This will enable different banks to communicate together through the national switch and allow the CBI to have full control of transactions inside Iraq. New legislation was issued by the CBI to ensure full control of the banking sector and that means that all the banks need follow this legislation about e-banking. With this legislation, the CBI opened up the Iraqi market to international players (i.e., e-banking companies) which will increase the quality of the work in this field. More steps are needed to enforce use of the card. A new initiative called salary nationalization has been started by the CBI, whereby all government employees will receive their salaries in their bank accounts and this will increase card usage. The other issue is the lack of trust of the people toward banks and especially of governments toward private banks; now, the government is trying to be more open with private banks by encouraging government departments to deal with all the private banks just like state-owned banks.

2. What are the challenges facing your business?

There is a lack of banking culture in society.

3. Where do you see your contribution to developing the sector?

Our main contribution is creating a network of stakeholders who work together to develop the sector. One stakeholder will not be able to develop the sector alone; we have started to open up to others, even competitors.

4. How would you describe your business value proposition and the added value to the sector?

Our segment is B2B and we offer our point of sales (POS) to the merchants. Our value is quality service; our device accepts different types of cards and we have a highly trained technical and customer service team to follow up with the merchants. We also provide the merchants with more business and, consequently, more profit because we have the largest number of card holders in the country.

5. Describe your business model and how it reflects the challenges the sector is facing.

Our BM reflects how we create and deliver value. We focus on customer satisfaction through our customer services and we educate customers by using our marketing and technical resources. We are not seeking short-term profits because the industry is still emerging. We anticipate that within five years we will start to reap profits from our operation.

6. How would you define the innovation taking place in your firm?

Our innovation comprises marketing aspects. We are always looking for new ways to educate our customers about our services, finding new channels to deliver our value, and lobbying to get new, useful regulations to develop the sector.

7. To what extent do you think that business model innovation is more important than classic product innovation in the financial sector?

Classic product innovation is important, but BMI is less important within the cards industry. The BMI in our business is located in segmentation whereby we can target niche markets.

8. Do you agree with the statement "product innovation cannot be successful without business model innovation in the financial sector?"

Sure. If you do not have BMI, you cannot commercialize any product.

9. Do you think innovation is critical to your business? Why?

Yes.

10. What do you think is the starting point (trigger) for innovating your business model?

The competition may force you to innovate, but the market is still emerging and there are not many companies in our field. Competition is not that important. Technology is also another trigger, although we are using the basic technology. However, in the future, the sector will certainly need more developed solutions. This all relies on the people culture. Regulation needs to be followed and it can have a positive or negative impact; however, it needs to be followed so it is a trigger.

11. In your opinion, what are the most important steps to adapt and innovate a business model in the financial sector?

The systems need to back the innovation. This is the first step that we need to think about. Sometimes, we need to find new partnerships to provide us with the technical expertise. The management commitment already exists in our business because they totally understand the challenges; however, at the same time, because the sector is still not profitable, it is hard for higher management to accept these changes.

The staff always have a certain way of doing their jobs. Therefore, we need to also focus internally and change the organizational culture. This needs to be taken care of for any new initiative.

<u>Interview F (bank)</u>

1. How would you describe the financial sector in Iraq?

Iraq banking legislation is based on laws from the fifties. Now they are trying to come up with new laws. The problem is with management also; management is old-style, and corruption is also high. Processes are slow and there is too much bureaucracy. The management styles and processes need more development. Finding good, new talent is also another challenge. The CBI is trying to bring in new systems such as RTGS for real-time transfer and also electronic check processing. Lack of trust is other problem in Iraq because the people have had bad experiences in the past with the banks.

2. What are the challenges facing your business?

The challenges we face include a lack of telecommunication infrastructure and slow processes in government departments and the CBI. Security is another challenge, depending on which part of the country you are talking about—the south and north of Iraq are safe, while there are some challenges in the central part of Iraq. Finding qualified talent is not that easy; as a result, the bank started its own training program to train staff.

3. Where do you see your contribution to developing the sector?

We are trying to develop the sector by sharing the knowledge that we have gained internationally. We have transparency in our process.

4. How would you describe your business value proposition and the added value to the sector?

We have high quality services based on our experience in the region. We provide real-time services. We also try to educate the client about the new services, such as credit and debit cards.

5. Describe your business model and how it reflects the challenges the sector is facing.

Every business has a business model. We have resources to implement specific activities, such as a legal department, IT department, and marketing department. We are implementing such specific activities to deliver value and to make some profit from our operation. In banking, we call it risk versus profit and we need to balance those two factors. Sometimes, the bank is not able to perform such activities; we need partners to help us with that. This is also considered a component of BM.

6. How would you define the innovation taking place in your firm?

We are an up-to-date bank. We have the best partners who provide us with quality service and which enable us to serve our clients. We are trying to introduce a telephone payment system, but the Iraqi market is not ready yet. Online banking is another component of BMI.

7. Do you think innovation is critical to your business? Why?

It is not just critical; it is a must in order to survive in the market and provide superior value. Technology is causing vast and fast changes, and all banks need to keep up with those new technologies.

8. What do you think is the starting point (trigger) for innovating your business model?

First of all, competition is increasing more and more in the market, so innovation will help to reduce this. The other starting point is technology advancement. For example, online banking was not so common a few years ago, but now it is essential that all the banks have online systems. Regulation sometimes causes innovation which can be negative or positive. Sometimes you need new systems or processes to comply with regulations. For example, in Iraq we have some features in the system, but these do not exist in our system in other countries.

9. In your opinion, what are the most important steps to adapt and innovate a business model in the financial sector?

In general, if we change anything in the BM we need to adjust the whole model to be aligned with that change and to support it. The process needs time to be implemented. We also need to test the change and obtain feedback about it.

10. What are the organizational barriers to implementing successful business model innovation?

There are no organizational barriers to innovation in our bank. We have leadership commitment to innovation; however, sometimes there will be monetary barriers to carrying out experiments.

<u>Interview G (e-payment provider)</u>

1. How would you describe the financial sector in Iraq?

It is a pre-emerging market. We still do not have core facilities for the banking sector and that includes the trust of people. Only 20% of the population are active bank users and the other 80% rely on cash operations.

2. What are the challenges facing your business?

Regulation is one of the challenges. The other challenge is the lack of automation in all government departments and government bureaucracy. Finding the right talent is another challenge. It is the role of universities to develop those talents. In addition, change is needed in the mentality of Iraqi employees and in the management style of both private and public sectors. This involves mainly changes in mentality, because it is not enough to simply find the right talent; you need to transform the way that think.

3. Where do you see your contribution to developing the sector?

I consider that our contribution is our unique position in e-payment. We are in the business for the last 10 years and we have tried a lot of things. We have the know-how about the sector. Our connection with the international community could be a great asset for the country to develop in the sector. We are 70% owned by the private sector and 30% by Rafidain Bank (state-owned bank). I can say that we are one of the few success stories in private-public partnership because the government always behaves as though the private sector exists to serve the government; however, in our case we created a new model for partnership and the company is entirely managed by the private sector, although the government has a share in it.

4. How would you describe your business value proposition and the added value to the sector?

For B2B, our value lies in the reduction of manual payments and efficiency; we have no cash department. For B2C we have 30,000 terminals where people can deposit or withdraw money. Our value lies in the easiness of managing money and salaries.

5. Describe your business model and how it reflects the challenges the sector is facing.

We aligned our business model into revenue stream business lines. Those business lines are the salary business, the credit and lending business, and the bill payment and money collection business. By aligning the company from the back end to the front end toward those core business lines—and we determine what we are going to do in those business lines by evaluating the customers' experience—we are trying to be customer centric in all our operations and decisions. We have defined our core business lines. We have aligned our product and services to those business lines which are used by the customers; that helps us to create and deliver our proposed value. We have core strategic initiatives aligned with our core business lines which allows us to keep and enhance our value. We also have things that we do on the technology platform to keep up-to-date with technology development.

6. Describe your business model components.

Value is the most important component. We must always be in touch with the customers. We have three segments in Iraq. One segment is government funders, which can be called enterprise; however, the Iraqi government is unique, so we categorize this separately from the B2B segment. We also have the B2C segment. We provide the ability for someone to do e-transactions. In the current Iraqi market, we do this via salary loans and credit. These will be other services in the future, so we need to develop new services to provide value.

7. How would you define the innovation taking place in your firm?

I would define it as a work-in-progress. The management style and the culture of the Iraqi environment is not always what we need it to be. We have a lot of smart people here who have good ideas, but perhaps not so much experience. How do we encourage good ideas in this environment? For example, in a meeting with a department manager and the people working in that department, the manager will talk, and the staff will sit and smile. The minute they leave my office, it is a completely different world. I need to make the managers understand that the best thing they can do is to recruit people better than themselves and empower them. This should not threaten them; first, we need to create an environment where people feel safe to put ideas into practice. We are trying to build an innovation culture in the way that we are doing our business; it has to be built into your policy and process.

8. To what extent do you think that business model innovation is more important than classic product innovation in the financial sector?

Business model innovation is more important because, in the end, it will affect your product and services. In other words, it will enhance your value.

9. Do you think innovation is critical to your business? Why?

Yes.

10. What do you think is the starting point (trigger) for innovating your business model?

People generally do not change unless they are forced to. I would like to think that I adapt, but generally we wake up every day and, if everything is working fine, we typically do not perform self-evaluation. We need a compelling event to start change. This could be competition, regulation, or the market itself. The evolution of technology is very fast. A new technology can enable additional things. If you do not keep up with technology and make sure that you are adapting to the new technology, you will fall behind.

11. In your opinion, what are the most important steps to adapt and innovate a business model in the financial sector?

For our business, step number one is to create an environment of real trust—not fake trust. This basically involves creating the trust. Step number two is alignment because people operate in their own departments and units; they do not think about the customer journey. Step three is being patient. We need to invest time and effort to see the result. This is a process that takes three to five years and which needs resources and time to test it. These are very high-risk strategic experiments which require leadership commitment.

12. What are the organizational barriers to implementing successful business model innovation?

I would say these are lack of knowledge, no leadership commitment, and resistance.

4.2 Current Status of Iraqi Financial Sector

Part of the aim of this thesis is to expand understanding about the current situation in the Iraqi financial sector. There is a clear consensus among all almost interviewees that the market is promising and anticipated to have good profitability: "We would not have come to Iraq in this difficult security situation except for the reason that the financial prospects will be good" (Interview B, 2018). Iraq is an oil-rich country and the financial sector could have great value and profitability in the future, but there is a serious need for the government of Iraq to develop and implement a strategy to improve the overall sector.

Regulations, IT infrastructure, organizational structure, and risk management are all presenting main obstacles for the sector: "the regulation is still needing to be developed to cope with the new development required" (Interview D, 2018). The CBI's efforts to improve the situation have focused on the organizational structure, the IT infrastructure, aspects of risk management, and the nature of banking supervision. Efforts have also been made to streamline communication between government authorities and the banking establishment. Five of the interviewees mentioned security instability as the main hindrance to banks' operation. Security issues can significantly increase the operation cost of the banks and other financial firms: “security is the first challenge: it increases the operational cost significantly” (Interview A, 2018).

In 2014, ISIS took control of almost 30 percent of Iraq, which led many banks to lose a lot of money. Due to the terrorist control over many branches, the banks had to close those branches and lose all the assets, which is reflected in their poor financial statements.

All of our interviewees emphasized the lack of qualified human resources as one of the main challenges within the sector. Many banks have started their own training program to develop their staff; others have seen staff development as of internal value to their employees:

“the third challenge is finding talent to work for us, who has expertise and skill and is willing to operate in a difficult environment. Lots of talent left Iraq, so finding talent is a challenge” (Interview A, 2018).

It is the responsibility of the Iraqi universities to develop more qualified graduates who have appropriate and up to date knowledge to fulfill the increasing market need. The absence of qualified employees led the banks to start their own programs to develop their staff and to bring expats in from outside the country, which has increased the total operation cost.

The last main challenge mentioned by all the participants was the lack of a banking culture. The banking culture takes different forms—for example, people’s distrust has a major effect on banking operations, as only 20 percent of the Iraqi population has a bank account. Businesses’ informality and asymmetric information are other forms of missing business culture in Iraq.

“We are focusing on small businesses and a lot of them have a high degree of informality and are not very structured, so as a financier it is not easy to assess how much risk is involved when you lend to those business. There is significant information asymmetry which, in the end, all banks have to deal with “(Interview A, 2018).

“I want to say the banking culture is not available in Iraq and there is distrust. Also, businesses do not have a banking culture—for example, there are no credible financial statements that the business could present to the banks “(Interview B, 2018).

"The second challenge is the people's distrust … because of years of bad experiences with the banking sector, for example, people cannot withdraw their deposits from some banks and that affects the trust factor" (Interview C, 2018).

All of the above challenges required an intervention from the Central Bank of Iraq to enhance the legislative environment to enable the sector to overcome those challenges.

4.3 Business Model Definition

Understanding a business model's definition and components is one of the major aims of this thesis. To clarify this, I asked the interviewees how they described their business value proposition and to describe their business model and its components.

The essence of any business model (BM) is to create and deliver value, and that is confirmed by the thesis' findings. All of the interviews described the BM as a way of creating and delivering value: "you align your product and services to those business lines which are in front of the customers and that helps us to create and deliver our proposed value" (Interview G, 2018); "we have resources to implement specific activities, such as a legal department, IT department, marketing department. We are implementing such specific activities to deliver our value and then get some profit out of our operation" (Interview F, 2018).

The importance of value creation and delivery are aligned with the theoretical foundation of the business model, where the BM is seen as the way of doing business.

Our interviewees highlighted the resources and activities necessary as a main part of any business model within the financial sector. They all agreed that to deliver your value proposition, you need to be backed by the right resources and implement the right activities: "we are using our main key resources and activity in our HQ outside Iraq to deliver our value in Iraq" (Interview C, 2018).

Every business needs to be sustainable and therefore the monetary aspect should be included in any business model. "We are implementing such specific activities to deliver value and then get some profit out of our operation. We call it bank risk versus profit, and we need to balance those two factors" (Interview F, 2018).

The cost structure of the business model is included in the risk. Risk is a broad term that may include non-direct costs such as the loss incurred in case of loan default. A careful balance between the cost structure and the revenue stream is needed in the financial sector.

Another finding of this thesis is that segmentation is an important component of the business model in the financial sector. All the participants said that the segmentation is essential: “we are targeting the public and the private sector, and for the private sector we are targeting the big companies” (Interview B, 2018); “we are also targeting the newly liberated areas like Mosul” (Interview D, 2018).

The emphasis on segmentation derived from its direct effect on the value delivery, as each targeted segment may have different values and require different resources and activities.

Channels and partnerships seem not to be important components within the financial sector’s business model, as the channel was mentioned by only one bank while, 28% of the interviewees see partnership as BM component that enable the firm to get new resources. However, other banks explain that there are many providers for any required services or resources thus, the firm can get what it needs easily.

The customer relationship was mentioned once in the interviews; other participants implicitly considered it as a value enabler or as a value proposition when they talked about their customer service as a value proposition.

4.4 Business model innovation

The interviews with international fund managers show that their main innovations are based on three building blocks: their activity, segmentation, and their value proposition. They focus on the underserved SME segment and assess the risk of each transaction in a different way, thus enabling them to create superb value for that segment. They also offer business support programs to all their clients to increase the success rate of the SMEs.

“In a way, what makes us innovative and unique is our credit process, because essentially what we do is assess credit risk; if credit risk can be properly assessed and priced, you can make a margin on it. Our innovation lies in the way we assess credit risk because we cannot rely on traditional methods of assessing credit risk. All the banks will assess credit risk based on historic financial performance; this means that it has to be reflected in all financial statements and the bank will lend based on assets. Our segment of the market does not have those historical records and normally does not have significant assets." (Interview A, 2018)

Another interview with a regional bank operating in Iraq reveals that its innovation is within its resources and channels, and this enabled it to significantly reduce the cost of opening new branches:

"For example, we have found new ways to build new branches that are approved by the Central Bank. At the same time, it cost us half of the normal branch construction cost because we used new construction materials that reduced the cost and the construction time. In Iraq, BMI is important, and it could be more profitable than classic innovation." (Interview D, 2018)

However, as the Iraqi market is still emerging, some interviewees mentioned that although BMI is important, Iraq is a special case where the need now is for product innovation:

"Classic product innovation is more important, and it depends on the market. For the Iraqi market, I think customers need to be more comfortable with classic product innovation; then BMI can be introduced" (Interview C, 2018).

In summary, all the firms that we interviewed are practicing BMI, whether in the form of segmentation, such as targeting underserved segments, or within their channels and resources, such as finding ways to construct low-cost branches that meet all the Central Bank's requirements, or even within the work process and activities, such as new processes for assessing credit risk. Our interviews also stressed that BMI has many benefits, such as reducing costs, increasing profits, and creating new sustainable value. Also, they show that BMI could take place in any building block of the BM.

4.5 Business model innovation trigger

The starting points of BMI have been studied by many authors, and one of the aims of this research is to understand the triggers for BMI. The findings show that BMI is a result of

external forces; these forces or factors may force firms to change the way in which they are doing business. As one interviewee noted, “We need a compelling event to start change. This could be competition, regulation, or the market itself” (Interview G, 2018). Another remarked, “Innovation is about change and it is hard to initiate change. You need some sort of crisis and you need the commitment of senior management” (Interview A, 2018).
Technological advancement, competition, regulation, and new market opportunities were highlighted as triggers of BMI: “Technological advancement is one of the most important triggers” (Interview B, 2018). Online payment systems and mobile payments are examples of technological advancement that are pushing the banks to adapt their BMs and address these new value enablers.
Competition seems to be a less important trigger for BMI as the market is still emerging and therefore there is no real pressure from the competition yet: “Competition is not relevant in Iraq because the market is still emerging and underdeveloped, but in general, it could be one of the triggers” (Interview C, 2018). Indeed, 57 % of the firms interviewed considered completion to be low in Iraq and therefore not an important trigger for innovation.
Regulation may have a negative or positive effect on financial firms in Iraq; either way, to comply with regulations, it is necessary to adapt the BM.

4.6 Business model innovation process

Among the interviewees, there was almost complete consensus that the BMI process is a high-risk experiment, in which the firm needs to allocate time and effort: “We need to invest time and effort to see the results. This is a process that takes three to five years, and which needs resources and time to test it. These are very high-risk strategic experiments, which require leadership commitment” (Interview G, 2018). The resources committed to such experiments could be otherwise used in the existing profitable BM and this could initiate internal conflicts within the firm, so the first step in BMI is to make sure that the required resources are available for the new experiments. As one interviewed commented, “We first need to examine our resources and decide if we can do BMI internally or if we need to bring in new resources” (Interview D, 2018).

All the managers interviewed agreed that the corporate culture is one of the main challenges, as firms have their own rules and routines for doing business and the new innovation may not fit with this routine. Sometimes, therefore, the culture also needs to be changed: “I think it is also important to have a corporate culture of innovation, where innovation is encouraged and to have the human resources to be ready for the change” (Interview A, 2018).

The firm should make the necessary arrangements to ensure that the human resources within the firm are ready to accept the change as resistance was identified as a major hindrance for innovation. An interviewee noted, “I think people do not like change. They will say they like it, but there is some fear of change. People themselves can be obstacles” (Interview A, 2018). In a similar vein, another commented, “First, we need to have the right people to implement innovation. We also need to make sure that all the employees are ready to accept that change” (Interview C, 2018).

BMI experiments also need a high degree of commitment on the part of management to implement change; without such commitment from the leadership, the firm will not be able to test or even initiate BMI. Thus, it was argued, “I would say these are (barriers): lack of knowledge, no leadership commitment, and resistance” (Interview G, 2018).

The last aspect of the experiments is the system alignment, namely that the firm may need to adjust its systems to enable the innovation process: “In the end, the system and the process need to support the change and the new BM, and I think we need to do that last, because if we focus too quickly on the systems, we might miss the innovation. The system needs to support innovation, not define it” (Interview A, 2018).

Chapter 5 Discussion and Conclusion

5.1 Discussion summary:

Having presented the research results in the previous chapter, it is important to discuss and interpret these results and their applications.

First, despite the many challenges facing the financial sector in the Middle East as whole, and especially in Iraq, the key players of the sector see potential opportunities with a promising future. Iraq is an oil-rich country in which the financial sector could be very profitable and make a high contribution to the economy as a whole.

Five main challenges were identified through the review of the literature and the analysis of the interview data. The findings highlighted security as one of the main challenges facing financial firms in Iraq. This challenge has key implications for bank performance and growth. Due to the security situation in Iraq and the war with ISIS, many banks have had to close branches in the affected area, comprising about 30% of Iraq in total. Security also affects the banks' growth and expansion in terms of opening new branches, as well as significantly increasing operational costs.

Lack of qualified talent in financial firms and human resources in general was highlighted as a main challenge by all of the managers. This leads to increased operational costs for banks as they have to implement training programs for their employees. However, human resources is also part of bigger problem concerning the necessary infrastructure. In particular, the telecommunications infrastructure has been struggling to provide the quality of services needed, such as Internet and other telecommunication services. In general, information technology as a whole need to be updated to provide a basis for developing the Iraqi financial sector.

The other main challenge, which in my view is the most important and was also mentioned by all the managers interviewed, lies in distrust among the people and businesses concerning the Iraqi financial sector. Iraqi society is predominantly based on cash operations and only 20% of the population use banks due to this distrust. Moreover, many businesses present a high degree of informality such that banks and other financial institutions cannot work with them because they do not have credible financial records that would enable the banks to evaluate the business risks. In addition, the banks and financial institutions are constrained by regulation; indeed, regulations imposed by the Central Bank of Iraq were highlighted as challenges, alongside the bureaucracy and old management style.

The second goal of this research was to identify how Iraqi financial firms understand the BM and its components. The findings show that the BM within the financial sector does not differ from any other business: It is defined and articulates how the firm does business; it is emphasizing value creation and value delivery aspects, as many managers are of the view that value should be at the core of any BM. Thus, the main component of the BM within the financial sector is the value proposition. To deliver this value, the firm will need resources to implement specific activities. These resources could be IT systems, know-how, branches, or capital, while the activities comprise marketing, legal, sales, and many others. The monetary aspect is also a part of the BM, and the firm should study and analyze the costs associated with value delivery to enable them to determine the most acceptable profit formula. Finally, for any bank to deliver superb value, it must understand market needs. No bank can provide value to all people under a universal model, and therefore all the managers emphasized the importance of segmentation in the BM, such that the firm can narrow its target audience and provide the right value to the right segment.

The third aspect is BMI and the findings show clearly that innovation can take place in any building block of the BM. Some banks practice innovation through segmentation, focusing on a niche segment, while others implement business support programs to increase their clients' success rate. Resources are also related to innovation. In general, BMI has an impact on the value perceived by the customers and the managers also revealed that innovation helps the firm to reduce costs and capture more profit.

The starting points of BMI comprise external factors that force the firm to innovate, located in three areas: technology, regulation, and competition. Competition in Iraq is low, as clarified by the managers, and therefore has less effect than technology and regulation. Examples of technological advancement are online banking and e-payments, which are necessary aspects for banks to have in place to increase their value and maintain market access. Regulation may force financial firms to acquire new resources. For example, in recent years the Central Bank of Iraq has focused on anti-money laundering regulations and all banks have to comply with these regulations, instituting a new department within the firm to implement certain activities in this regard.

One might ask why companies do not implement BMI to capture the associated benefits. The answer is that the process is hard to implement and there are many barriers. In particular, the findings revealed four aspects: organizational barriers, resource availability, human resource alignment and system alignment, and the corporate culture not being supportive of innovation. In the latter case, this concerns the company routine, namely doing business in a certain way, especially if the routine is based on a successful existing BM.

The managers described BMI as a high-risk experiment surrounded by a high level of uncertainty. To implement such a process, the firm needs to have all the required resources and a high level of leadership commitment to ensure the necessary efforts are made to implement it and recoup the costs. Human resources in general tend to fear any change, viewing it as a threat, so before and during the process, the firm's management needs to ensure that all the staff are well informed of the benefits of the innovation. This can be accomplished by increasing the communication and training concerning the benefits of the new BM. The final barrier could be the system: The firm's system and processes need to back the innovation process and the changes that accrue from such innovation.

5.2 Research limitation and future research

This research adopted a qualitative approach and the findings primarily draw on my interpretation of the interviews. For this reason, the results of this study should be considered the views of individuals (both the interviewees' and mine) rather than proven facts. In considering such a new area of research in Iraq's financial sector, it would be very interesting to test the research findings empirically by conducting quantitative research on the same topic.

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