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THE ROLE OF BUSINESS MODELS IN MANAGING ORGANISATIONS IN TURBULENT TIMES

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Abstract:
Nowadays, the concept of a business model has been widely discussed both in the literature and business practice. In the article, the author presents different approaches to its definition. In general, a business model describes how an organization creates, delivers, and captures value in economic, social, cultural or other contexts. The model includes elements of a business, as well as the revenues it generates and expenses it incurs. In addition, the relationship between a business strategy and a business model of an organization has been discussed. The aim of this article is to demonstrate the business model and its relationships with the strategy as a tool used by modern enterprises. The business model is an important component in managing an organization. In order to face challenges of the changing business environment, enterprises should design business models in a flexible manner to build sustainable competitive advantage.

Keywords: definition and components of a business model, strategy, managing organisations, turbulent environment

1. INTRODUCTION

The present-day economy, characterised by dynamic and turbulent changes, forces enterprises to implement new management concepts and ideas. During their selection, the concepts of building competitive advantage play an important role. Due to unpredictability and instability of the environment, internal changes within companies are necessary for survival and commercial success. The most important business changes to be considered by managers today include the different playing field and change in the key resources – moving away from raw materials and financial resources to focus on intellectual property and human capital (Leszczewska, 2013, pp. 65-66). A concept that may ensure successful building of competitive advantage of an enterprise during turbulent times is a business model.

Therefore, the aim of this article is to demonstrate possible uses of a business model in managing an organization in unstable and unpredictable conditions. What is more, a discussion on the definition and components of the business model, as well as its relationships with the business strategy shall be presented.

2. DEFINITION AND COMPONENTS OF THE BUSINESS MODEL

A business model as a concept has been in place in the theory and practice of management for only about 20 years. The term owes its origin and huge popularity to the development of the Internet and emergence of enterprises running business referred to as e-business. Due to its short history, this concept still has no clear-cut definition. The literature review has shown that approaches to defining and establishing components forming the business model differ. There are two most common approaches to determining the business model (Michalak, 2012, pp. 134-135):

- narrow focus, where the business model is treated as means for generating revenues
- broad focus, where the business model is conceived as a method of creating value by an individual.

Definition of the business model developed by R. Amit and Ch. Zott has a narrow focus. The model is conceived as a method used by an organization to generate revenues. A broad approach is presented by the definition by D. Teece. According to Teece, the business model shows how the organization creates value for customers, induces customers to pay for the delivered value and transforms payments into profits, i.e. determines the structure of revenues and costs of an enterprise (Michalak, 2012, pp. 134-135). Table 1 presents the most common definitions of the business model.

Table 1: Selected Business Model Definitions

Author(s) Year	Definitions	Papers Citing the Definition
Timmers, 1998	The business model is ”an architecture for the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the sources of revenues” (p. 2).	Hedman & Kalling, 2003
Amit & Zott, 2001; Zott & Amit, 2010	The business model depicts “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (2001: 511). Based on the fact that transactions connect activities, the authors further evolved this definition to conceptualize a firm’s business model as “a system of interdependent activities that transcends the focal firm and spans its boundaries” (2010: 216).	Hedman & Kalling, 2003; Morris, Schindehutte, & Allen, 2005; Zott & Amit, 2007, 2008; Santos, Spector, & Van Der Heyden, 2009; Bock, Opsahl, & George, 2010
Chesbrough & Rosenbloom, 2002	The business model is “the heuristic logic that connects technical potential with the realization of economic value” (p. 529).	Chesbrough, Ahern, Finn, & Guerraz, 2006; Chesbrough, 2007a, 2007b;

		Teece, 2007, 2010
Magretta, 2002	Business models are “stories that explain how enterprises work. A good business model answers Peter Drucker’s age old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?” (p. 4).	Seddon et al., 2004; Ojala & Tyrvainene, 2006; Demil & Lecoq, 2010
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). […] It has six fundamental components: Value proposition, customer, internal processes/competencies, external positioning, economic model, and personal/investor factors.	Calia, Guerrini, & Moura, 2007
Johnson et al., 2008	Business models “consist of four interlocking elements, that, taken together, create and deliver value” (p. 52). These are: customer value proposition, profit formula, key resources, and key processes.	Johnson & Suskiewicz, 2009
Casadesus-Masanell & Ricart, 2010	“A business model is […] a reflection of the firm realized strategy” (p. 195).	Baden-Fuller & Morgan, 2010
Teece, 2010	“A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value” (p. 179).	Gambardella & McGahan, 2010

Source: Zott, Amit, Massa, 2011, p. 6.

Due to existence of various business model definitions, there is also no transparent approach to determination of its components. For example, according to A.J. Slyvotzky, D.J. Morrison & B. Andelman, a company's business design is composed of four strategic elements: customer selection, value capture, strategic control and scope (Slyvotzky & Morrison & Andelman, 2000, pp. 26-27). In their opinion, if the business is to succeed, it must be designed in such a way that its key elements are aligned with customers' most important priorities. Other authors on the other hand, such as M.W. Johnson, C.M. Christensen & H. Kagerman, claim that a business model can be broken down into four elements: a customer value proposition, a profit formula, key resources and key processes. They observed strategic circumstances that require business model changes. Interestingly, the new product usually means development of a new business model (Johnson & Christensen & Kagerman 2008, p. 53). H. Chesbrough and R.S. Rosenbloom on the other hand, suggested that a business model fulfils the following functions (Chesbrough, Rosenbloom, 2002, p. 529):

- Articulates the value proposition (i.e. the value created for users by an offering based on technology);
- Identifies a market segment and specifies the revenue generation mechanism (i.e. users to whom technology is useful and for what purpose);
- Defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain;
- Estimates the cost structure and profit potential (given value proposition and value chain structure);
- Describes the position of the firm within the value network linking suppliers and customers;
- Formulates the competitive strategy by which the innovating firm will gain and hold advantage over rivals.

Osterwalder & Y. Pigneur who claimed that the business model describes the rationale of how an organization creates, delivers and captures value, distinguished the following components: value proposition, customer segments, channels, customer relations, key resources, key activities, key partners, revenue streams, cost structure (Osterwalder & Pigneur, 2010, p. 15-18).

Another method of analysing the business model components was deployed by R. Casadesus-Masanell & J. Ricart (Casadesus-Masanell & Ricart, 2011, p. 78). In their opinion, an important component of business models are different types of choices made by executives: policy choices, asset choices and governance choices, as well as the resulting flexible and rigid consequences. A. Afuah and C.L. Tucci on the other hand, suggest that the business model depends on quality implementation of the following components: value offered to customers, customer segments, scope of products and services, revenue sources, pricing, essential connected activities, organisational capabilities giving grounds for operation of the business, undertakings ensuring sustainability (Afuah & Tucci, 2003, p. 21).

Also, attention should be paid to studies by Polish researchers exploring the issue of the business model and its components. According to K. Obłój, a business model includes the following components: competitive advantage, resources and skills, as well as the value chain. M.J. Stankiewicz on the other hand, observes that essential business model components are competitiveness, competitive advantage, instruments and position (Brzóska, 2014, pp. 144-147). Others (Gołębiowski & Dudzik & Lewandowska & Witek-Hajduk) believe the business model to be an innovative design tool including a set of components and their relationships that demonstrate the logic of a given company in a given business. It involves a description of the value delivered by the firm to a group or groups of customers, with identification of the basic resources, processes (activities), as well as external relations of the firm, intended to create, offer and deliver value ensuring competitiveness of the firm in a given business, and enabling the increase of value in question (Gołębiowski & Dudzik & Lewandowska & Witek-Hajduk 2008, p. 56).

The a/m approaches appear to present some common business model components that include:

- customer value proposition – determination of a properly customized offer, different that one offered by the competition,
- key skills and resources – having proper resources (tangible, intangible, human resources) matching the customer value proposition offered by the firm,
- competitive advantage ensured by relevant management techniques, competitive instruments and carried out strategic and operating processes

According to Casadesus-Masanell & Ricart, a business model will be effective if it meets the following criteria (Casadesus-Masanell & Ricart, 2011, p. 76-85):

1. it is aligned with company goals – choices made while designing the business model should align with company goals and enable an organization to achieve them,
2. it is self-reinforcing – choices made should complement one another, the model must be internally consistent,
3. it is robust – the model should be able to sustain its effectiveness over time, generate virtuous cycles of feedback loops that are self-reinforcing.

Market developments make even the perfectly matched business model components and relations between them non-permanent. This forces the executives to make certain changes in the model components or relations between the components, in order to be ahead of the competition (Brzóska, 2009, p. 13). P. Ghemawat points out that a business model is exposed to the following dangers (Ghemawat, 2005):

- imitation – copying and replication of the business model by the competition,
- slack resulting from organizational complacency,
- holdup – capturing the created value by customers, suppliers and other players by flexing their bargaining power,
- substitution, meaning that new products decrease the value customers used to perceive in your products or services.

3. SIMILARITIES AND DIFFERENCES BETWEEN BUSINESS MODEL AND STRATEGY

The literature addresses the problem of distinguishing between the concepts of a business model and business strategy. Broadly, a business model is defined as the concept describing the business idea. Business strategy, on the other hand, determines the desired future position of the organization, together with strategic goals and methods of their achievement enabling the position to be established. According to B. Nogalski, the business model may be treated as a developed management model of the organisation and present it as a new conceptual management tool. It makes the strategy implementable in its static and structural dimension. It may be referred to as the imagined desired directions of company development (including the strategy) and of its operating conditions (Nogalski, 2009, p. 39). J. Magretta on the other hand, believes that the concepts of a business model and business strategy may be used interchangeably (Leszczewska, 2013, p. 69). According to Duczkowska-Piasecka et al., business strategy and business model are not identical, however they are interrelated. A business model affects the strategy, but not the other way round, since for the strategy to be feasible, it must be rested on skills, resources and existing position of the enterprise (Duczkowska-Piasecka et al., 2013, p. 294). Table 2 presents the relationships between a business strategy and a business model.

Table 2: The comparison of business model and strategy from the perspective of selected criteria

Criteria for comparison	Strategy	Business Model
Construction	In the classic approach, it sets out: company goals, means (tools) for achievement of the goals. It may provide information concerning competitive methods, competitive behaviour, mission, vision, etc.	Complex structure. Depending on the approach, it may include highly diversified set of components, encompassing the interior of the organization, as well as its environment, partners, elements of the value chain etc.
Postulation characteristics	Alignment with other elements of the organisation and situation in the sector.	Alignment in terms of internal and external aspects, specific components should be consistent, mutually supportive. Innovation, permanence.
Formulation process	More frequently, analytical activity based on reasonable grounds, information, reports etc.	More frequently, intuitive activity.
Formalisation	A formal document is often a deliverable.	A deliverable is usually not formal, or alternatively some components are formalized.
Level of analysis	Organisational level.	A business model encompasses the entire organisation, and a strategy in many business model approaches is one of its components.
Value creation/gaining competitive advantage	Stress on gaining competitive advantage in the sector	Stress on creating value and generation and protection of profits.
Use	Primarily, a planning and strategic management tool in a company.	A planning and strategic management tool, useful in designing the business plan, used in end-to-end comparison of organisations.

Source: Drzewiecki, 2013, p. 68.

4. DESIGNING FLEXIBLE BUSINESS MODEL FOR TURBULENT TIMES

Nowadays, business management is a highly complex process due to rapid changes in the business environment. International literature gives four dimensions of the environment: dynamism, complexity, uncertainty and munificence (Wach, 2008, pp. 59-60). Current changes in the environment include for instance (Mazurkiewicz, 2011, p. 408):

- Ongoing globalisation processes and consequently, changes in the operation of businesses internationally,
- Growing competition focused on customer needs and on the performance and spending ratio,
- Disappearance of the existing markets and emergence of new ones,
- Emergence of new organizational forms (business networks, mergers, alliances),
- More dynamic growth and implementation of high technologies and operating methods,
- Activity of individual groups of stakeholders aiming to satisfy their needs.

The environment for which the basic determinants are the increasing degree of novelty and rate of cultural, social and economic change, as well as advances in civilization, and increase in its intensity and complexity, is referred to as turbulent environment (Ansoff, 1985, pp. 58-60). In such conditions, operation and development of a company mean the need of flexible adjustment to the changing environment. This forces enterprises to develop the organizational agility, in order to survive in the times of turbulent change. D. Sull defines organizational agility as the capacity to identify and capture opportunities more quickly than rivals do, which he finds invaluable. Recent studies have shown that nine out of ten executives ranked organizational agility both as critical to business success and as growing in importance over time. The benefits of enhanced agility, according to survey respondents, include higher revenues, more satisfied customers and employees, improved operational efficiency, and faster time to market (Sull, 2009). On the other hand, research conducted by PricewaterhouseCoopers' for the 11th Annual Global CEO Survey reported 76% of executives to have said that their ability to adapt to change will be a key source of competitive advantage. The aforesaid studies have shown that agile organizations are able to move from strategy to execution far more efficiently by (PricewaterhouseCoopers' 11th Annual Global CEO Survey, p. 17):

- Anticipating the future and planning for business opportunities.
- Simplifying and integrating business activities so they can be analyzed for cost and value.
- Focusing on innovation within the existing boundaries of their businesses.
- Integrating new business capabilities continuously, rapidly, and cost effectively.
- Managing change through people.

For organizations, considering the impact of the environment on the organization shall mean the need to redesign the business model and to introduce some changes. Diaconu & Dutu point out that in a turbulent business environment, there are two main issues which may inhibit the process of redesigning the current business model to become flexible (Diaconu & Dutu, 2014, pp. 24-25):

1. *Focusing on drastic reducing costs* – in accordance with literature studies, in the first phase of a crisis enterprises usually implement the restructuring processes. Restructuring involves different activities, such as: downsizing, restructuring, budget reduction and suspension of projects, reduction of activities, staff reductions, reduction of R&D, marketing and staff training costs.
2. *Inertia* – Ashkenas (2012) points out that no business model lasts forever. The most dangerous trap that any manager can fall into is complacency. Markets, technologies, customers, competitors are changing with such speed that no one can guarantee that the profit gained today may ensure success tomorrow. Inertia will not allow timely identification and taking advantage of opportunities.

Having regard to the uncertainty factor in business, aspects that facilitate emergence of flexible business models are (Diaconu & Dutu, 2014, pp. 25-27):

1. *Orientation from outside to inside of the business model*. Whether a company is under pressure, the alteration of external environment represents the strategy, organizational structures and existing processes that shape the business model. Remodelling is needed for the organization to meet the challenges.
2. *More than one strategy.* No specific strategy can ensure survival or success. Planning two strategic scenarios (pessimistic and optimistic) sets future directions for action, enabling the company to operate regardless of the environmental evolution.
3. *Emphasis on speed of response.* Kotter (2012) emphasises that fast reaction is very important. Executives today should identify the most important risks and opportunities early enough to design strategic initiatives to implement them fast enough. Also, companies should change hierarchical structures to flattened structures, to reduce the time of making and implementing decisions.
4. *Emphasis on networks.* In actual conditions, it is very important to develop business models which integrate partners, suppliers, customers and competitors to strategic business systems that take the form of multiple interconnected networks based on dual communication.

5. CONCLUSION

Current changes in the business environment are characterised by the growing pace and low predictability. A business model demonstrating how the business should work and gain competitive advantage should consider environmental conditions. A well-designed business model facilitates successful implementation of the company's strategy. However, current situation, growing complexity and uncertainty mean that enterprises must be more flexible while designing/redefining the business model. A once developed business model will not guarantee business success forever. In a turbulent environment, business models should be based on flexibility (strategic, organizational and operational), orientation from outside to inside and fast reaction. Such approach, as suggested in the article, will enable executives to lead a company to success through volatile and uncertain times.

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