National Conference on

Emerging Business Models

GLOBAL INSTITUTE OF MANAGEMENT
BHUBANESWAR
Estd. 1997

Edited by
Dr. S.K. Moharana
Dr. Munmun Mohanty

Published in Collaboration with
International Journal of Engineering Science Paradism and Research(IJESPR)

ISSN: 2319-6564

www.ijesonline.com

National Conference on
Emerging Business Models

Published Year: 2017

Edited by
Dr. S.K. Moharana
Dr. Munmun Mohanty

GLOBAL INSTITUTE OF MANAGEMENT
HANSAPAL
BHUBANESWAR, ODISHA

Published in Collaboration with
International Journal of Engineering Science Paradism and Research(IJESPR)

ISBN: 23196564
www.ijesonline.com

Contents

1 Re-Engineering of Marketing for SMEs in Energy Market through Modelling Customers' Strategic Behaviour

Subhranshu Pattnaik

Abstract: In recent years, the energy market has seen an increase in small and medium enterprises (SMEs) participating in the sector and providing relevant services to customers. The energy sector SMEs need to acknowledge whether reengineering their marketing strategy by modeling customers' website behavior could enhance their digital marketing efficiency. Web Analytics refers to the extracted data of customers' behavior from firms' websites, a subclass of big data (big masses of uncategorized data information). This study aims to provide insights regarding the impact that energy SMEs' web analytics has on their digital marketing efficiency as a marketing reengineering process. The paper's methodology begins with the retrieval of behavioral website data from SMEs in the energy sector, followed by regression and correlation analyses and the development of simulation models with Fuzzy Cognitive Mapping (FCM). Research results showed that customer behavioral data originating from SMEs' websites can effectively impact key digital marketing performance indicators, such as increasing new visits and reducing organic costs and bounce rate (digital marketing analytics). SMEs in the energy sector can potentially increase their website visibility and customer base by re-engineering their marketing strategy and utilizing customers' behavioral analytic data.

Keywords: re-engineering of marketing; digital marketing; big data applications in energy systems; big data in energy markets; digitalization; energy market; customer behavior; regression analysis; FCM simulation

Introduction

The constantly changing context of the market nowadays often challenges businesses and leads many of them to adverse financial situations. From this status, small and medium enterprises (SMEs) are in more danger than bigger organizations. Especially in markets where a few big companies dominate, such as the energy sector, SMEs should focus on more innovative methods to attract customers. This can be achieved by offering more flexible electronic services (e-services) and by better understanding their customers' behavior. For this to happen, a constant process of digitization and digital transformation is required.

Digitization refers to creating a digital representation of physical objects or attributes [1]. Digitalization refers to enabling or improving processes by leveraging digital technologies and digitized data. Therefore, digitalization presumes digitization. Digital transformation is business transformation enabled by digitalization [1]. Digital transformation tactics of a pre-digital entity are based on searching for an innovative digitization strategic plan and establishing a flexible framework in which installments between understanding and con-ducting with a service provider are entangled, according to Chanias et al. [2]. Skogland [3] investigated how a corporation with an institutional plan to enhance corporate digital transformation might create a new notion of customer engagement. Once the view that marketing is primarily a corporate strategy that places consumer happiness at the center of the decision-making system is accepted, the importance of marketing reengineering could be seen as a highly favorable option [4].

Dr. Subhranshu Pattnaik, Asst. Pattnaik, Global Institute of Management, Bhubaneswar

Businesses should seek to obtain an improved comprehension of the links among the digitalization and sustainability transformation and connected macroscale emerging advancements (e.g., blockchain technologies) and cultural patterns (e.g., personal data protection, electricity preference, and local government preferences) [5]. In this way, more possibilities would arise for firms to harvest and increase their digital marketing efficiency by re-engineering core marketing procedures. The surge of skeptical inquiry and consciousness about the institutional function of marketing has corresponded well with the birth of a revolutionary unique management strategy, the process of re-engineering [4]. The basic idea of re-engineering argues that the emerging economic perspective requires companies to embrace significant, if not transformational, different insights into their activities [6].

Several electronic-commerce (e-commerce) and e-service businesses, in addition to the economy's largest competitors, function as small and medium-sized enterprises (SMEs). These are frequently developed by small parties of relatives, associates, families, or indi- viduals, and are enlarged and refined throughout time [7]. They make the consumer feel at ease by using their particular e-service offering approach, which is very customizable. The bulk of service firms are in the SME market, which means they have reduced economic resources to implement expensive reforms. SMEs' sustainability revolution is enabled and constrained by digital transformation.

Analysts predict a comeback in carbon levels and an upsurge in electricity consump- tion, aided by extremely cheap worldwide resource costs [8]. Given that the energy sector, both generation and consumption, accounts for 75% of the European Union's (EU) carbon emissions, measures are needed to minimize such a recovery all over the market, notably in buildings/heat, industry, and transportation [9]. In this context, following energy efficiency policies, customers may search for alternative and innovative services provided by energy SMEs that could limit energy consumption and provide engaging services [10]. SMEs that have correctly created their web pages, arranged an e-commerce platform, and a good delivery network are among many that may expand and earn an appropriate income regardless of global energy issues. E-commerce has established a doorway into the market, a method to make even the most mundane transactions. Customers began to purchase increasingly more under the constraints of e-markets, with the context of e-commerce being altered remarkably [7].

During the time customers spend on SMEs' websites, they create digital traits that sum up their behavior. That information originated from website usage data, belonging to the wider field of big data, and can either reflect single-user or aggregated data. Big data is described as a massive quantity of unordered data [11]. Marketers should construct and methodically process substantial quantities of information in an attempt to obtain aware- ness from them [11]. Web analytics is a category of big data that can be created by webpage visitors by performing online searches [12]. This process can be defined as collecting and analyzing customer behavior on a firm's website so that firms can gain a better under- standing of the interrelations between website visitors and company webpages [13]. Web analytics are critical success factors that are derived from commercial websites, converted, and filtered in a quantitative manner [14].

The paper's structure is organized accordingly, with Section 1 including the literature review; Section 2 analyzing the extraction of customers' behavioral data and settling research hypotheses; and Section 3 showing the outcomes of the regression and correlation analysis, as well as the Fuzzy Cognitive Mapping (FCM) model that was developed for supporting the study's findings. FCM models represent a modeling process that provides fuzzy stationary variances to all included factors by applying factor relationships to the system. Lastly, Section 4 presents the discussion of the performed analyses' results, as shown in the previous section, and Section 5 elaborates on the research's conclusions.

Energy Markets, SMEs, and Digitalization

SMEs are critical to economic systems, especially those in emerging nations. SMEs support a large proportion of corporations worldwide and are critical for job establishment and worldwide financial advancement. SMEs account for approximately 90% of enterprises and hire over 50% of the global workforce [15]. SMEs do have high possibilities for energy savings, namely 37%, according to Richert [16], due to their versatility, direct engagement, and instant staff influence [17].

Concerning the energy markets, multiple innovations have been proposed to lower energy costs for customers through online approaches [15]. Other developments utilized scheduling methods to improve household electricity consumption and increase customers' preferences and comfort [16]. Another notable fact is the advanced energy-saving method, which is plain and can be quickly embraced by SMEs all over the world, and was aided bythe digitalization context, ultimately contributing to enhanced employee engagement and improved customer behavior while constructing areas [17].

The digitalization trend has exerted a significant beneficial influence on the growth of e-commerce [18]. E-commerce refers to completing commercial activities via the internet, and webpages serve as the platform for such operations [19]. Webpages are growing into essential platforms for merchants all over the globe, and via them, electronic shops give accurate data, as well as establish trustworthy and protected information tools to ensure a satisfying service-providing process and supply [20]. SMEs' sustainability is being drivenby flexible e-services and smart gadgets [21]. The same applies to SMEs in the energy sector. Customers are increasingly aware of new services and innovations, as a result of technological advancements, and it is becoming increasingly challenging to engage them via conventional advertising [22]. Based on the energy market, service-oriented firms mightutilize a variety of tools and services targeted at digitalizing operations. Digitalization of service procedures necessitates vast amounts of data processing, connectivity, and database server needs, as well as the prospect of digital isolation of some client segments [23].

Through the digitalization framework, energy SMEs could harvest any available customerbehavior data at their disposal to efficiently segment their client base.

Customers' Behavior in Energy Markets through Web Analytics

SMEs should pay more attention to activities that enable technological advances to boost organizational performance [24]. Consumers engage with e-services through websites, selecting personal characteristics of the arranged services they wish to purchase, and afterward, selecting the technique of payment and business operations [25]. The value of e-services is largely determined by how the e-service company's webpage is organized, how it functions, how rapidly a provided service is offered, and what the outcome of the e-service requirement procedure is [26].

Due to the high demand of the energy market's service sectors, regarding power supply and supplementary services, customers are searching the world wide web for sustainable and beneficial alternatives. Through these quests, websites carry a plethora of web data concerning customers' behavioral information. As referred to above, web analytics reflects the behavior of website visitors, which can adequately indicate customers' preferences for energy SMEs' services. Hence, the analysis of such behavioral data is necessary for the sustainability of firms in highly competitive markets, such as the energyone. Utilization of customers' behavior over firms' websites has been proven capable of providing valuable information for enhancing their digital marketing campaigns and sustainability [27].

Moreover, customers' behavior metrics have been strategically harvested by othersectors, such as the air forwarding and airline industry, leading to higher profitability and sustainability [28,29]. Most recently, the behavior of website customers of decentralized and centralized payment networks has been a key implication in improving their marketing strategies' efficiency [30]. At this point, the authors tend to exploit customers' website behavioral patterns to present a potential way for energy SMEs to enhance their digitalmarketing efficiency and corporate performance.

Benefits from Re-Engineering of Marketing for SMEs

Customers expect a progressively increasing quality of service that corresponds to their rising expectations. A portion of small businesses have started to recognize that greater quality of consumer service influences the performance of the offered services, allowing them to compete in the sector.

Numerous consumers make purchasing decisions based on cost, although many of them value the standard and value of customer experience more [31]. According to Pires et al. [32], the massive portion of information produced as a consequence of activity digitalization necessitates the development of the latest experience and understanding and the ability to endorse decision-making, problem-solving, and procedure improvement.

Effective execution of digital transformation is heavily based on the capabilities of the firms' employees [7]. Vital changes in organizations' strategy, based on marketing and customer data, provide better corporate performance [33], underlining the strong bond between marketing activities and re-engineering decisions. The design and implementation of efficient business processes in an intensive marketing environment with high customer expectations, such as the energy sector, are extremely important in achieving the required business performance and sustainability [34].

Furthermore, re-engineering marketing strategies to adopt IT tools and implement strategic planning can increase firms' effectiveness, sustainability, and adaptability [35]. A plethora of potential advantages arise from implementing and adopting customer be- havioral data in improving businesses' digital marketing efficiency as a novel market-ing re-engineering process. The authors focus on identifying whether adjusting various customer behavioral web metrics could aid the improvement of key digital marketing efficiency metrics.

Related Literature and Research Motivations

Adaptable and innovative e-services, based on essential and efficient operations and procedures, are at the center of client engagement and successful preservation. The focus on specialty tasks (including the specialized marketing team) is key to re-engineering thinking, which is motivated by an inter-functional, interdisciplinary viewpoint. Re-engineering emphasizes the importance of flexible, inter-functional organizations that continually grow and restructure to deal with contextual unpredictability and rising market competition [4]. For SMEs, re-engineering and improving the efficacy of their digital marketing strategy is vital due to their competitive environment and declining market share.

Whilst digital innovations serve an essential role in allowing novelty in service supply operations, assessing their influence on service features and interactions between the service provider and consumer remains highly important [36]. Firms that have yet to position themselves in a digital world must digitalize their existing services as quickly as feasible. Multiple advantages for businesses' marketing tool arsenals, particularly for SMEs, provide the capitalization of all types of big data [37] (such as web analytics), which may aid in trend re-engineering. Establishing techniques and approaches to enhance information systems for services that may aid in the administration and implementation of re-engineering activities connected to service development and operations management has been and will continue to be a continuous process [38].

Digitalization may assist in transforming a tangible organization into one that includes digital principles, greater interactions, and clients [39]. Company and construction planning are required to accomplish digital transformation because they augment one another, concealing constraints that could each be accomplished individually, which should be considered in other concepts which only fixate on the institution, facilities, or transformation monitoring [39].

Throughout the reviewed literature, a research gap can be discerned over the potential advantages of modeling website customers' behavior in favor of SMEs' performance. More specifically, more light should be shed on the usage of customers' behavioral data to re-engineer the marketing activities for SMEs in the energy sector to accomplish the refinement of their digital marketing results. Through modeling the website behavior of their customers (web analytics), energy SMEs could obtain valuable information for adjusting their digital marketing plan and enhancing their efficiency. In this way, they will be able to attract more potential customers and reduce their marketing costs by re-engineering their marketing procedures. The overall theoretical framework is depicted in Figure 1.

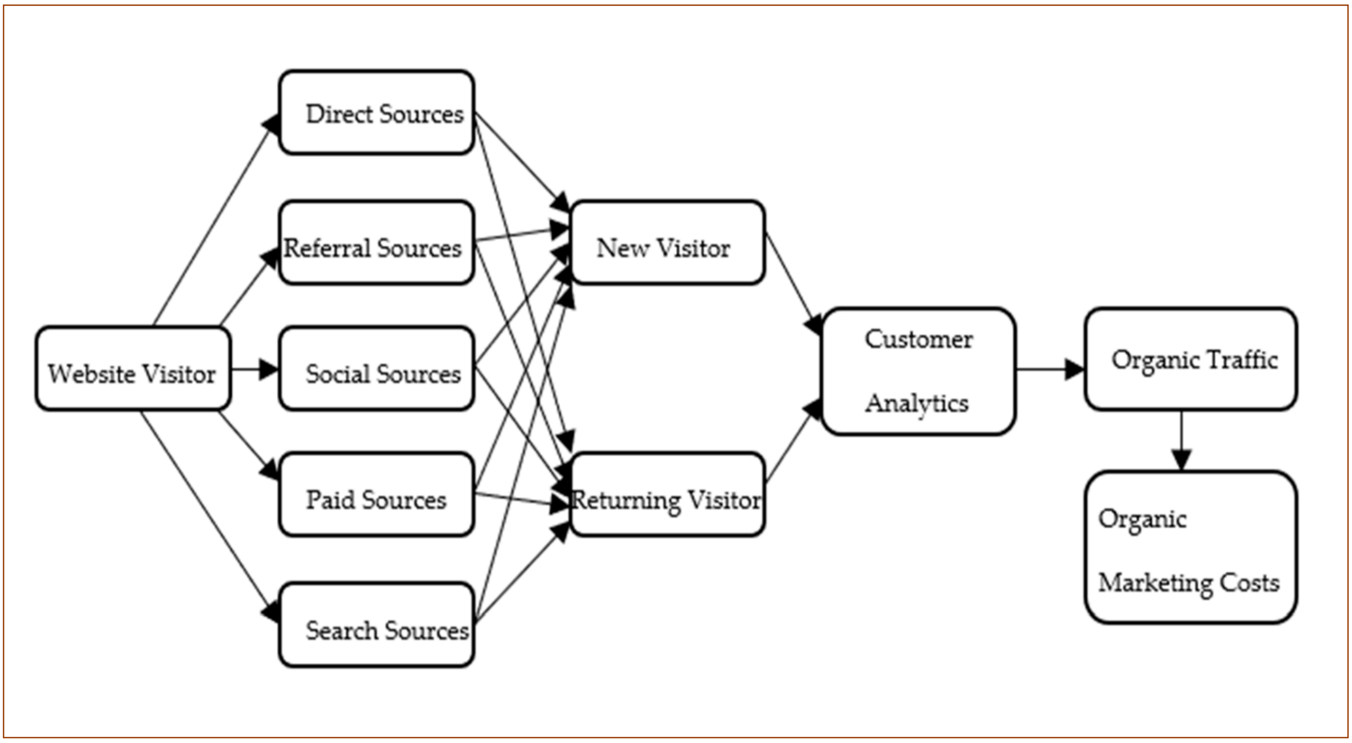


Figure 1. Theoretical Framework of Energy Companies' Digital Marketing activities.

Materials and Methods

Sample Selection and Data Availability

For the analysis to be performed, the authors should define the SMEs that will form the sample for the analysis. Some of the most innovative SMEs in the energy market consist of our study's sample. Innovation in energy-related services is not common, leading to the projection of a small number of SMEs. So, we collected data from five innovative energy SMEs' websites [40] during a period of 90 days of observation. This information, known as website analytics, is a representative factor of customers' behavior on SMEs' websites. For this reason, we examined the gathered website analytics as indicators of customers' digital behavior and elaborated through Fuzzy Cognitive Mapping simulation. Hence, daily values of web analytic metrics form the study's variables, such as websites' new and total visits, organic traffic and keywords, bounce rates, traffic sources, average time on site, and pages per visit (Table 1). The referred website data were collected from online platform applications that collect and provide usage rates and behavioral data of website visitors through payment. For research reasons, the Semrush platform [41] was selected to collect these data due to its data variety and availability. This dataset will undergo extensive statistical and simulation analysis to produce efficient results to support energy SMEs' need to re-engineer their core activities for the marketing orientation.

Research Hypotheses

In this phase of the paper, the main research hypotheses are presented, followed by extensive analysis. Re-engineering core business activities has been proven to be quite beneficial in various sectors. This raises the question of whether utilizing big data in enhancing digital marketing activities and thus re-engineering SMEs' activities to marketing is beneficial. To assess the efficiency of the marketing re-engineering process, SMEs in the energy sector should capitalize on their customers' behavior and how they affect important factors of digital marketing activities, such as organic traffic, organic costs, new visits, and website bounce rates. For this purpose, five key research hypotheses are gathered, aimingto point the direction of the study to highlight the marketing re-engineering process by analyzing customers'

website behavior. The research hypotheses are presented below:
The first research hypothesis is based on the concept of whether a marketing re- engineering process could enhance the website efficiency of energy SMEs. We aim to answer if SMEs in the energy sector could attract more visitors to their websites by improving their digital marketing activities via a neat marketing re-engineering process.
H1. "*Re-engineer SMEs' digital marketing activities would impact positively the attraction of newpotential customers*".

Next, the second hypothesis relies on the fact that by re-engineering the core processes of marketing, visitors to SMEs' websites could tend to abandon them less. So, for SMEs in the energy market, knowing that the abandonment rate of their website is affected by the re-engineering of marketing processes could potentially benefit them.

H2. "*The tendency of customers to abandon an energy SMEs' website depends on how well their digital marketing activities are re-engineered*".

The third hypothesis of this paper concerns the costs related to organic marketing campaigns for energy SMEs and how re-engineering their activities could assist. SMEs should acknowledge whether re-engineering their digital marketing activities could help them control and reduce the cost of organic marketing campaigns.

H3. "*The re-engineering of digital marketing activities influences the marketing campaign costs ofenergy SMEs*".

Having analyzed the SME's website performance through the re-engineering of their digital marketing activities, our focus should be shifted to whether the use of big data represents the variation of re-engineering trends. If SMEs could collect and analyze big data from their websites with ease, their corporate performance could be boosted, given the fact that big data was enabling the promotion of re-engineering trends.

H4. "*Big Data can impact the promotion of re-engineering trends*".

In the final hypothesis (H5), the usage of data modeling is examined through its role as a useful Decision Support System (DSS) for re-engineering procedures. To examine this hypothesis, the authors performed the simulation analysis by utilizing a well-known Deci- sion Support System (DSS) and examined the validity of its results, under the appropriate outcomes that would constitute in favor of re-engineering procedures.

H5. "*Data modeling could stand up as a Decision Support System (DSS) by aiding re-engineering procedures*".

Results

Regression Analysis

In the results section, the research hypotheses are confirmed or denied through statis- tical analysis. More specifically, the authors utilized correlation and regression analysis. In Table 2, the most important descriptive figures have been deducted to provide a first image for the paper's main variables (mean, min, max, and std. deviation). Before the following statistical analyses, the authors validated the adequacy of the study's variables by ensuring that data follow the normal distribution with Shapiro–Wilks' statistics having p-values over the level of significance (0.05) [44]. Next, in Table 3, the correlation analysis can be seen, which was conducted based on Pearson's correlation coefficient [45]. From the presented correlations below, it becomes obvious that there is a strong connection among the digital marketing efficiency variables of organic traffic, organic costs, paid traffic, and new visits.

Moving to Table 4, our first linear regression is deployed with organic traffic as the dependent variable. Each performed linear regression included all the referred digital marketing analytics as independent variables, with the ones that had the higher significance rate being depicted in the following tables. The regression is not verified overall, despite the high $R^2 = 0.870$, since its p-value is $0.572 > a = 0.05$. None of the independent variables affect the organic traffic dependent variable significantly (p-value $< a = 0.05$). On the contrary, in Table 5, the linear regression of new visits is verified overall with $R^2 = 1.00$ and p-value $= 0.001 < a = 0.01$. Each of the independent variables significantly affects the new visits' variable with p-values all below the levels of significance, a = 0.01 or 0.05. Energy SMEs' new visit dependent variable variates up to 2.347 from direct traffic, 0.579 from referral traffic, 1.934 from paid traffic, 0.248 from social traffic, and 0.338 from search traffic. This means that for every 1% increase in direct, referral, paid, social, and search traffic, new visits increase by 234.7%, decrease by 57.9%, decrease by 193.4%, increase by 24.8%, and decrease by 33.8% accordingly. Through these regressions, we can verify our first research hypothesis, which means that energy companies could re-engineer their digital marketing activities to attract more new customers.

Moving to Table 6, we can see that the regression of SMEs' website bounce rate is in total verified with p-value $= 0.000 < a = 0.01$ level of significance and $R^2 = 1.00$. All of the independent variables of digital marketing analytics are significantly impacting the dependent variable of bounce rate with p-values below a = 0.01. Energy SMEs' website bounce rate variates up
to
0.893 from referral traffic, 0.612 from social traffic,
0.143 from average time on site,
0.587 from new visits, and 1.053 from total visits. For every 1% increase in the referral traffic, social traffic, average time on site, new visits, and total visits, the bounce rate decreases by 89.3%, increases by 61.2%, decreases by 14.3%, decreases by 58.7%, and increases by 105.3%, respectively. This means that the paper's second hypothesis is verified, and it is proven that customers tend to abandon an energy SMEs' website depending on the re-engineering development of their digital marketing activities.
At last, in Table 7, we can see the outputs of organic costs' regression, where there is no overall verification since its p-Value is above a = 0.05 significance level (0.508). Moreover, none of the independent variables of the digital marketing analytics significantly affect organic costs, with p-values $> a = 0.05$. Energy SMEs' organic costs vary up to 0.287 from referral traffic, 0.041 from social traffic, 0.218 from average time on site, 0.681 from new visits, and 0.042 from total visits. Every 1% increase in the referral traffic, social traffic, average time on site, new visits, and total visits, causes organic costs to decrease by 28.7%, decrease by 4.1%, decrease by 21.8%, increase by 68.1%, and decrease by 4.2%, accordingly. Hence, the third research hypothesis of the study is rejected, meaning that energy SMEs' marketing campaign costs cannot be reduced by reengineering digital marketing activities.

Exploratory Model Deployment

In the paper's next phase, the authors performed and examined three scenarios for enhancing the performance of energy companies' marketing outcomes in various key metrics by adjusting the analytic factors of their websites. By performing the previous stage, the regression and correlation analysis, the authors discerned the factors that mostly affect key variables in estimating energy SMEs' re-engineering efficacy, such as their website traffic, the abandonment rate, and the costs needed for supporting SEO campaigns. The FCM simulation analysis is based on the regression and correlation coefficients of variables and will be used to present the immediate impact and course of the digital marketing performance indicators.
Fuzzy Cognitive Mapping (FCM) is a conceptual analysis and a parametric method of mind mapping in which stationary frameworks portraying information can be established by specifying different parameters, both positive and negative relationships among factors, and the extent of connection that a factor has with others. For this purpose, we utilized the online platform application of MentalModeler [46], where the FCM modeling tool is available for use. FCM explanatory modes are built on the configuration of mind mapping and use graphical representations and diagram analyses to compare the factors in a system. Such concepts can be employed to simulate a framework with several factors and to map the relationships among the factors as well as the system [47].
The FCM provides a holistic examination of the industry since it incorporates the statistical analysis

of the sector. It can provide optimization scenarios in comparison to the whole industry. This aspect is very useful for startups since the implementation of such a method could provide useful insights for the acquisition of competitive advantage [48].The referred examination of the sector can be seen in the deployed FCM model in Figure 2.

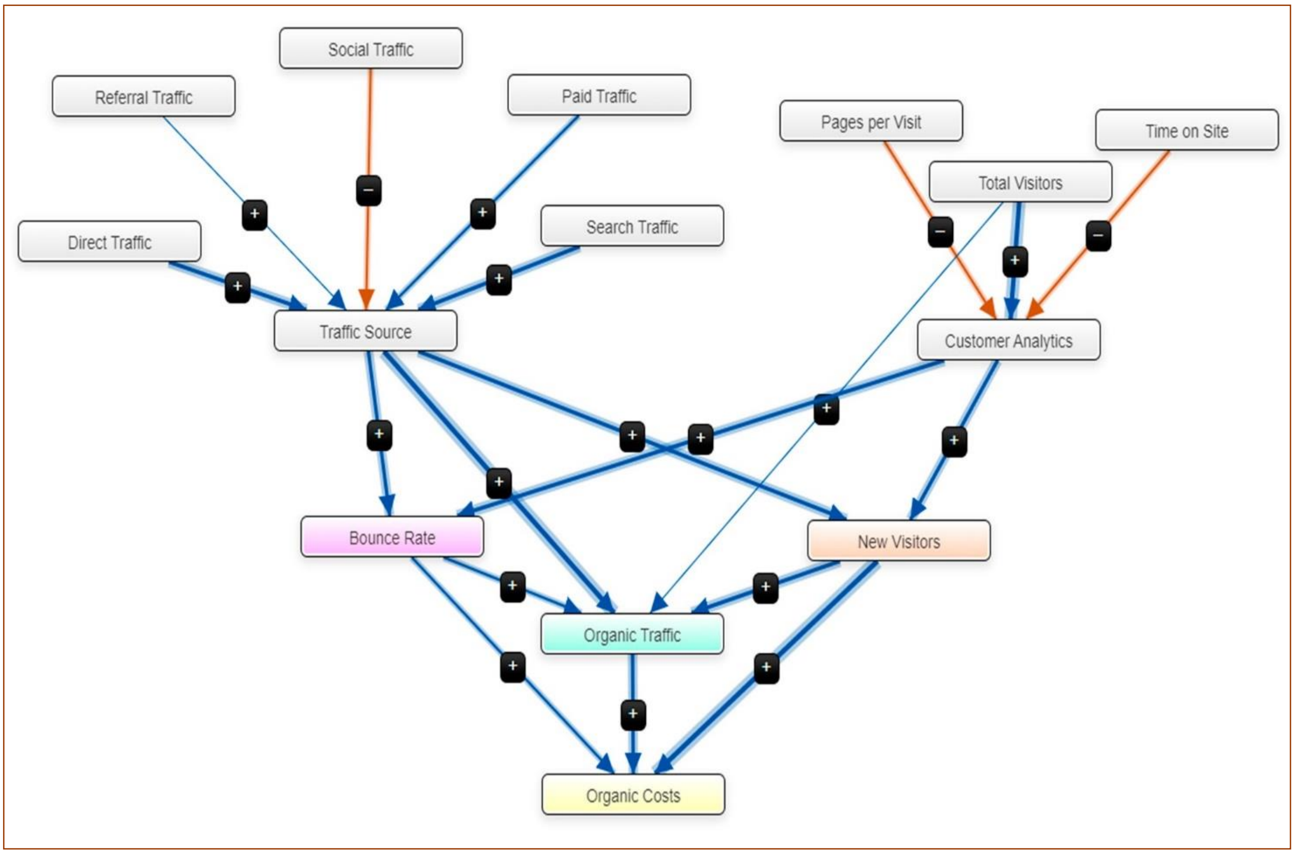


Figure 2. Deployment of Fuzzy Cognitive Mapping Model from extracted Web Analytic metrics [46]. Source: www.dev.mentalmodeler.com (accessed on 16 June 2022).

Much software deals with Fuzzy Cognitive Maps modeling, although the oversized funding of established value scientists resulted in the development of website-based editors. Such software is used not only for modeling but also for deploying multiple scenarios. The existence of such editors enables a multitude of researchers to contribute to the development of their scientific works. Each software has negatives and positives, FCM has the limitation of not being able to signal specific points. For this reason, it was deemed necessary, in order to understand the results of the research, to highlight them with a painting program (https://www.gimp.org/ (accessed on 23 October 2022)).

Increasing/Decreasing Customer and Traffic Analytics

During the scenarios of the Fuzzy Cognitive Mapping modeling, the hyperbolic tangent function [49] was used due to its effectiveness and robustness in simulating and estimating mapping processes and measurement of similarity [50]. To estimate the direct effect of SMEs' web analytics on the digital marketing performance metrics of their websites, we created four scenarios. In the first scenario, all web analytic metrics were decreased by 10% and then increased by 10%, to observe the variation caused to key metrics such as energy SMEs' websites' new visitors, organic campaign costs, and traffic, and also their bounce rate. So, in Figure 3 and Table 8, we can see the overall course of these metrics is cathodic since all metrics appear to have reduced values. Organic costs are decreased the most with a decrease of 27% (point 1, Figure 3), which is a positive outcome in terms of digital marketing performance, organic traffic is reduced by 21% (point 2, Figure 3), new visits by 12% (point 3, Figure

3), and bounce rate by 10% (point 4, Figure 3), which is also a good sign of digital marketing efficiency.

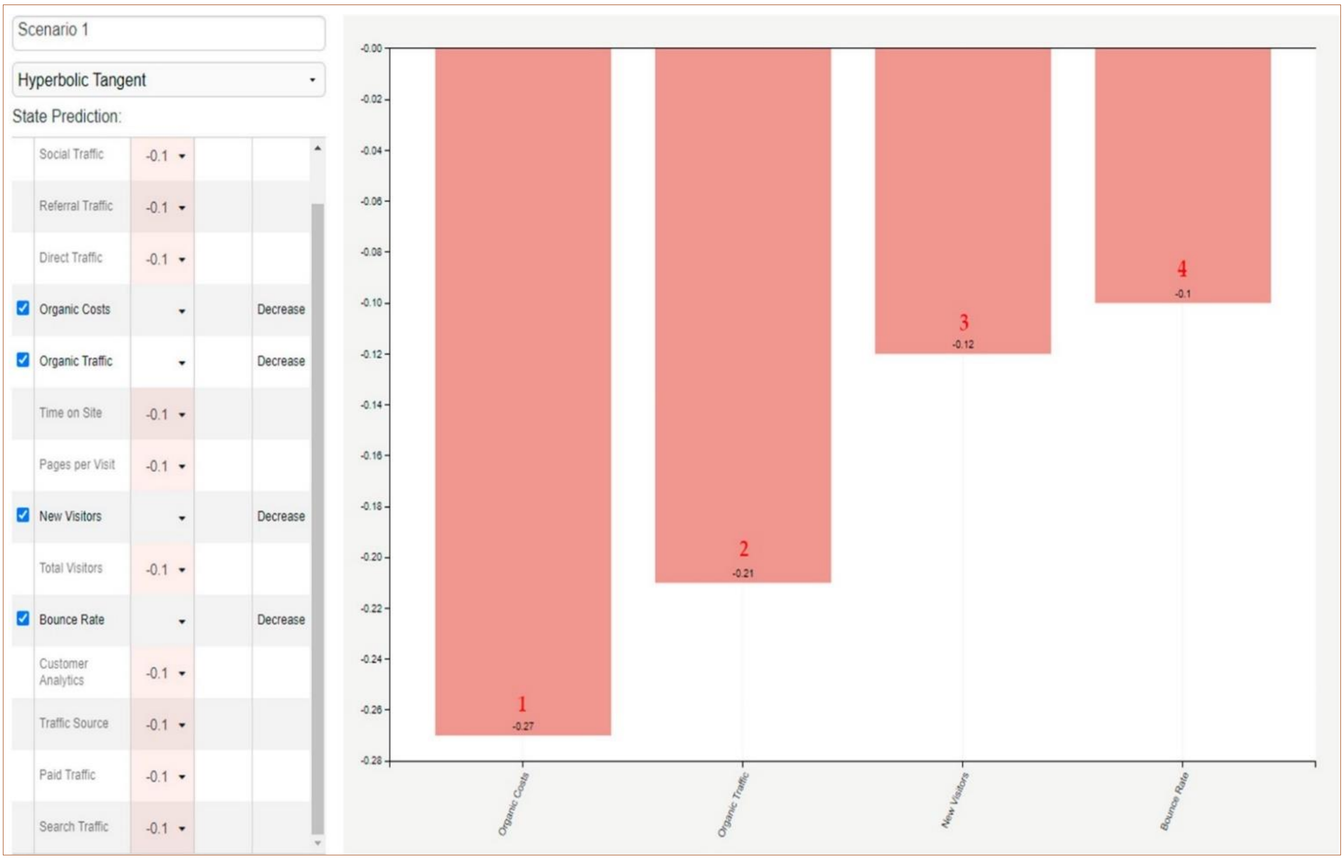


Figure 3. Impact of decreasing energy SMEs' website analytics [46]. Source: www.dev.mentalmodeler.com (accessed on 16 June 2022).

Table 8. Outcomes of hyperbolic tangent function from decreasing SMEs website analytics.

Components	Applied Variation	Organic Costs	Organic Traffic	New Visitors	Bounce Rate
Social Traffic	−10%				
Referral Traffic	−10%				
Direct Traffic	−10%				
Average Time on Site	−10%				
Pages per Visit	−10%	Decrease of 27%	Decrease of 21%	Decrease of 12%	Decrease of 10%
Total Visitors	−10%				
Customer Analytics	−10%				
Traffic Source	−10%				
Paid Traffic	−10%				
Search Traffic	−10%				

On the other hand, by increasing all customer and traffic analytics by 10%, we get the exact opposite results, meaning increases in organic costs, traffic, new visits, and bounce rate by 27% (point 1, Figure 4), 21% (point 2, Figure 4), 12% (point 3, Figure 4), and 10% (point 4, Figure 4), accordingly (Figure 4 and Table 9). This time, an increase in all analytics leads to an enhancement of organic traffic and new visits to SMEs' websites but to a deterioration of organic costs (increase) and bounce rate (increase), metrics that show improvement when kept at low values. To obtain further insights regarding the optimal strategy for energy SMEs' digital marketing performance and provide reasons for re-engineering their marketing procedures, the authors deployed more FCM scenarios by adjusting both traffic and customer analytics in different volumes.

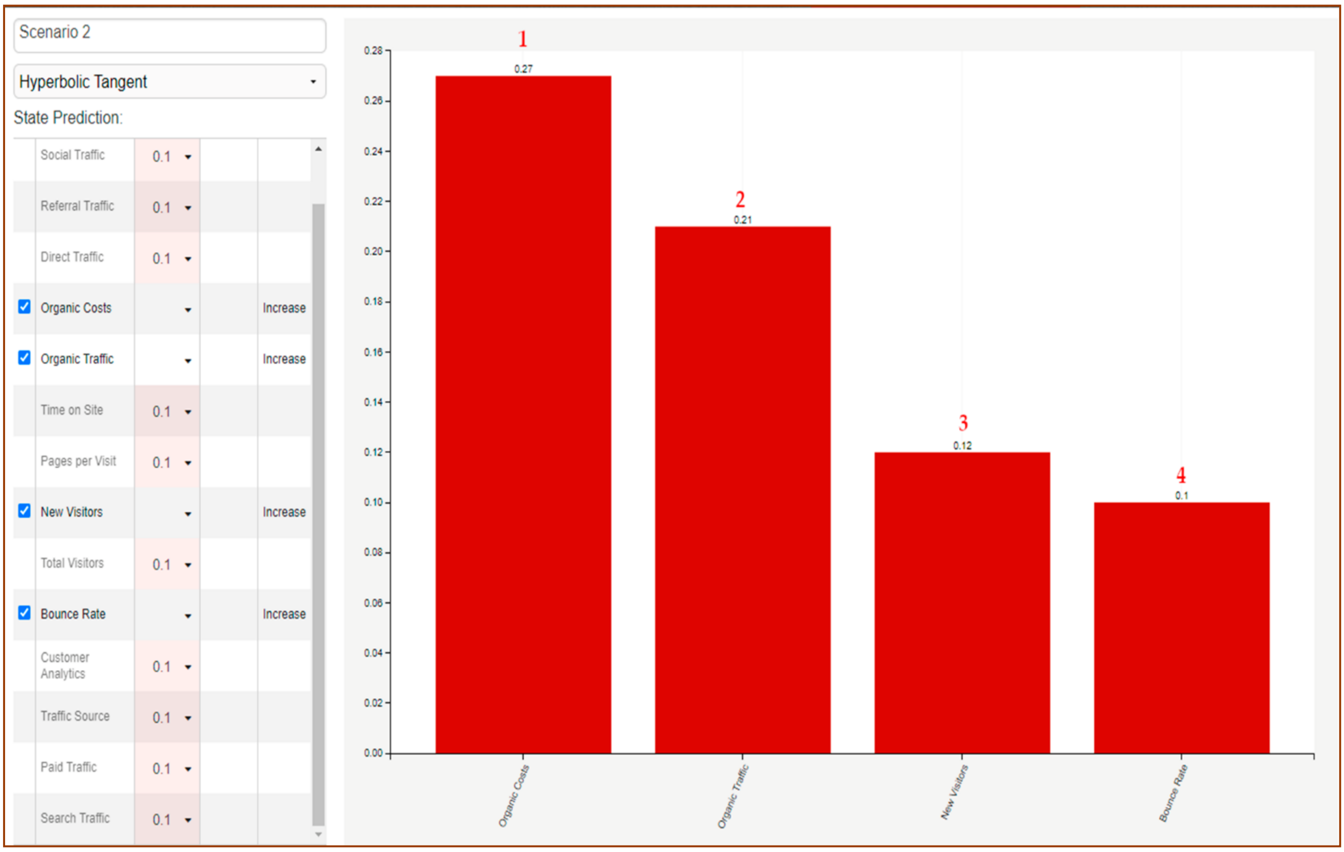


Figure 4. Impact of increasing energy SMEs' website analytics [46]. Source: www.dev.mentalmodeler.com (accessed on 16 June 2022).

Table 9. Outcomes of hyperbolic tangent function from increasing SMEs website analytics.

Components	Applied Variation	Organic Costs	Organic Traffic	New Visitors	Bounce Rate
Social Traffic	10%				
Referral Traffic	10%				
Direct Traffic	10%				
Average Time on Site	10%				
Average Pages per Visit	10%				
Total Visitors	10%	Increase of 27%	Increase of 21%	Increase of 12%	Increase of 10%
Customer Analytics	10%				
Traffic Source	10%				
Paid Traffic	10%				
Search Traffic	10%				

Reducing Consumer Analytics and Increasing Traffic Analytics

This time, by capitalizing on the hyperbolic tangent function's utilities, the authors produced organic costs, traffic, new visitors, and bounce rates' direct impacts by causing different variations to energy SME websites' traffic analytics and customer analytics. The authors chose to examine these digital marketing performance indicators by increasing the traffic analytics by 10% and, at the same time, by decreasing the customer analytics by 10%. This aims to give varied results to the previous scenario and highlight the importance of each analytics category in the four examined digital marketing performance metrics. Figure 5 and Table 10 below show the direct results of the scenario's varied variables. As can be discerned, organic costs and traffic saw a direct increase of 6% (point 1, Figure 5)and 11% (point 2, Figure 5), respectively, while new visitors and bounce rate were not affected at all (points 3 and 4, Figure 5). Hence, the increase of traffic analytics by 10% and the decrease of customer analytics by 10% increases organic campaign costs, which is not desired, and also raises the amount of organic traffic, which is the desired outcome. As a result, the re-engineering processes of marketing activities are triggered, since by adjusting analytic metrics, energy SMEs can alter the performance indicators of their digital marketing campaigns. Moreover, for higher clarity of results, another scenario is being performed that carries out the opposite variation of traffic and customer analytic metrics.

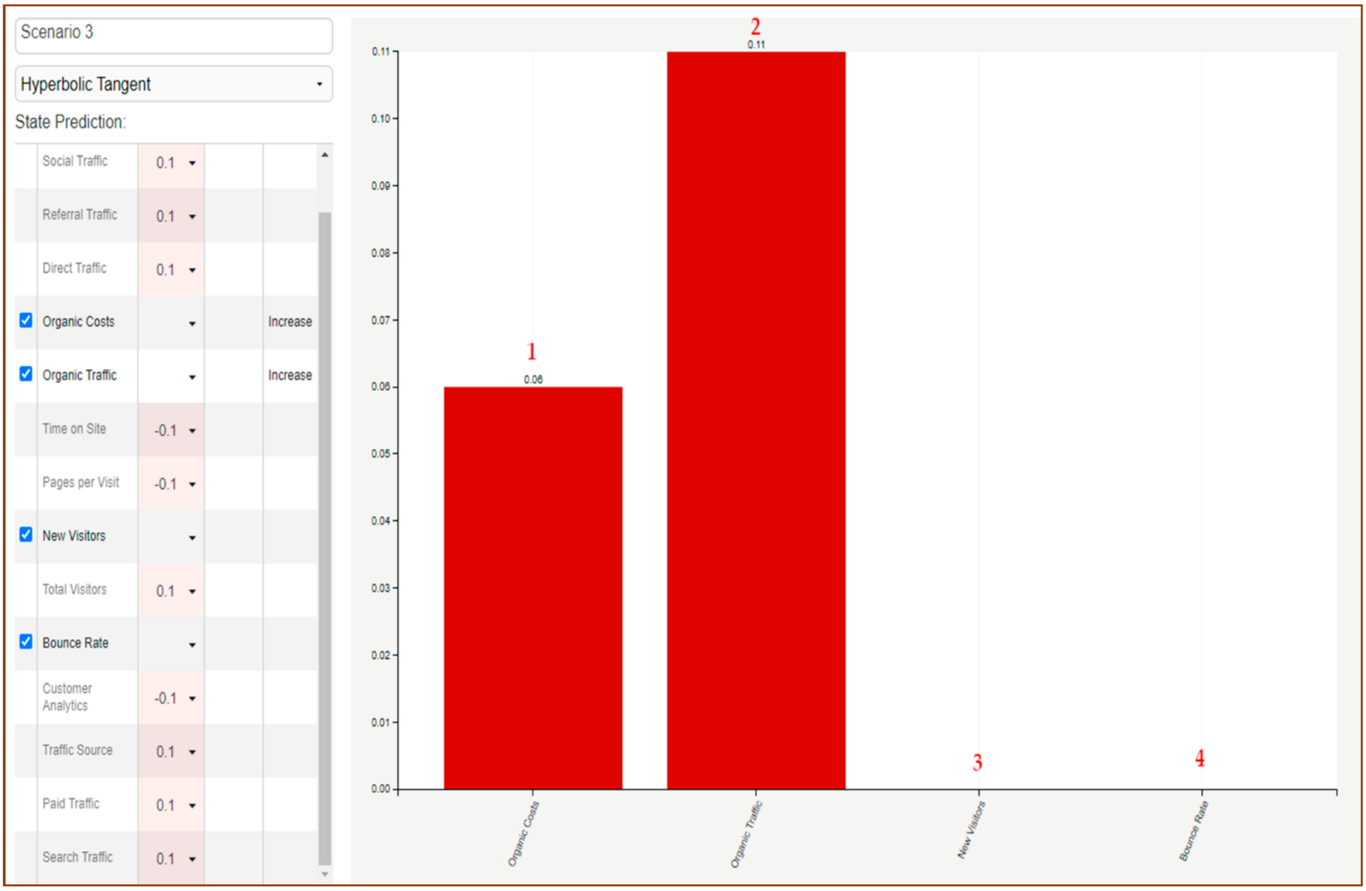


Figure 5. Impact of decreasing energy SMEs' customer analytics and increasing traffic analytics [46]. Source: www.dev.mentalmodeler.com (accessed on 16 June 2022).

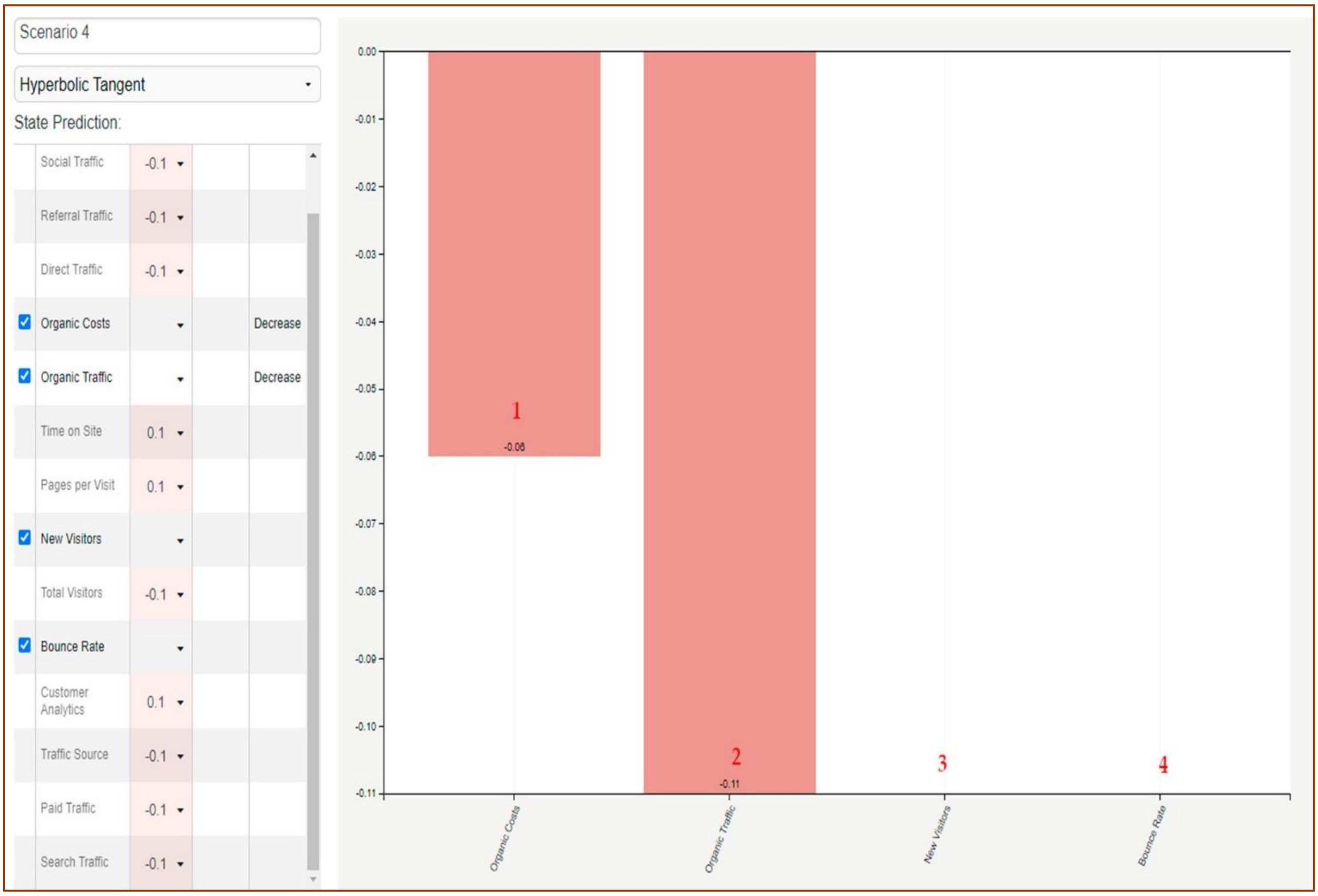
Table 10. Outcomes of hyperbolic tangent function from decreasing energy SMEs' customer analytics and increasing traffic analytics.

Components	Applied Variation	Organic Costs	Organic Traffic	New Visitors	Bounce Rate
Social Traffic	10%				
Referral Traffic	10%				
Direct Traffic	10%				
Average Time on Site	−10%				
Average Pages per Visit	10%	Increase of 6%	Increase of 11%	No variation	No variation
Total Visitors	10%				
Customer Analytics	-10%				
Traffic Source	10%				
Paid Traffic	10%				
Search Traffic	10%				

Reducing Traffic Analytics and Increasing Consumer Analytics

At the latter stage of the scenario simulation, we estimate the variation of organic costs, organic traffic, new visitors, and bounce rate when the opposite situation of the Section 3.2.1 occurs. More specifically, in Figure 6 and Table 11, we examine how an increase of 10% in customers' analytics, average time on site, and the average pages per visit combined with a decrease of all traffic sources by 10% (direct, referral traffic, etc.) affects the above key digital marketing performance metrics. As a consequence, the direct effect of enhancing the web metrics of customers' behavior and reducing the traffic metrics of the SMEs' websites is the deterioration of their organic campaign costs and traffic by 6% (point 1, Figure 6) and 11% (point 2, Figure 6), respectively. At the same time, no further variation in the websites' new visitor and bounce rate metrics is observed (points 3 and 4, Figure 6). The effect of reducing all traffic analytics and increasing customer analytics is a slight decrease in organic costs, which is seen as an improvement, with organic traffic being reduced to a wider extent. Since the flow of new potential customers and their rate of bandon bandoning the website is not affected, SMEs in the energy sector should consider the benefits and losses of reduced organic traffic at the altar of reducing organic costs.

Figure 6. Impact of increasing energy SMEs' customer analytics and decreasing traffic analytics [46]. Source: www.dev.mentalmodeler.com



(accessed on 16 June 2022).

Table 11. Outcomes of hyperbolic tangent function from increasing energy SMEs' customer analytics and decreasing traffic analytics.

Components	Applied Variation	Organic Costs	Organic Traffic	New Visitors	Bounce Rate
Social Traffic	−10%				
Referral Traffic	−10%				
Direct Traffic	−10%				
Average Time on Site	10%				
Average Pages per Visit	10%				
Total Visitors	-10%	Decrease of 6%	Decrease of 11%	No variation	No variation
Customer Analytics	10%				
Traffic Source	−10%				
Paid Traffic	−10%				
Search Traffic	−10%				

Discussion

At this point of the research, the authors aimed to comprehend whether the elaboration of energy SME customers' behavior through their website analytic metrics could help indicate any variation in their digital marketing efficiency. The implication of customers' behavioral data to SMEs has been found to enhance their digital marketing performance since it is capable of explaining the variation of key customer and traffic analytics [27–30] such as organic traffic, new visits, etc. For this purpose, the authors deployed regression and correlation analyses followed by the static simulation modeling of FCM, based on the big data collected from five innovative SMEs in the energy sector.

Depending on the results of the regression analyses and based on the significance and explainability the independent variables have with the dependent ones, we can see that cus- tomer behavioral analytics, part of big data, can create strong bonds with key performance indicators of websites. So, website analytic metrics (web analytics), as part of big data, are capable of depicting onsite consumers' behavior due to the representative metrics of any individual website visitor. A successful re-engineering process needs real-time information on a firm's performance to provide accurate insights for corporate decision-making. Since big data is capable of presenting the direct experience and characteristics of website cus-tomers, as shown by the regression results, we can assume that big data can significantly contribute to promoting and distinguishing re-engineering trends, thus verifying our fourth research hypothesis (H4).

Furthermore, from the FCM simulation analysis, a crucial outcome regarding the usage of Decision Support Systems is derived. From the overall process of the FCM scenarios' simulation, it can be deduced that the contribution of Decision Support Systems (DSS), such as the MentalModeler [46] platform software, is very important in estimating the efficiency of re-engineering procedures. Re-engineering procedures such as the proposed one for improving the digital marketing efficiency of SMEs through customer website behavioral data. This is due to DSS' capability of depicting the direct effects of various factors' variations in key metrics that promote re-engineering assessment. Utilizing and modeling data through Decision Support Systems (DSS), such as the MentalModeler FCM simulation software [46] in this study, has proven to be a decisive factor in illustrating the direction of re-engineering procedures. Through this assumption, we can verify the paper's last hypothesis (H5), which means that data modeling can aid in re-engineering procedures by using Decision Support Systems (DSS).

Conclusions

After settling the verification of the last hypotheses of the paper, the main results of the study are analyzed next. Throughout this research, the authors' interest has been shifted to SMEs operating in the energy markets and their potential benefits from analyzing their website customers' behavior. The competitiveness of the energy SME market makes the utilization of any efficient process that promotes businesses' sustainability mandatory. Data that indicate website visitors' and customers' preferences consists of a valuable tool for enhancing SMEs' digital marketing performance and, thus, sustainability.

Energy SMEs that capitalize on their website customers' data and further re-engineer their marketing processes can effectively develop models and simulations that predict the course of their digital marketing performance. Strategic modeling of customers' behavior optimizes offered services' resonance and increases the engagement of customers. The results of the paper outline the need for energy SMEs to re-engineer current marketing strategies and focus more on improving digital marketing performance via analyzing website customers' behavior.

The outcomes of this study highlight the fact that website behavioral data of energy SMEs' customers covariate with important variables of their digital marketing performance, like organic costs. Moreover, consumer analytic data (average time on site, average pages per visit) and traffic analytic data (direct, social traffic, etc.) tend to affect digital marketing performance variables (organic costs, traffic, new visits, and bounce rate) differently. Since customer behavioral analytics can explain the variance of key digital marketing perfor- mance indicators, we discern these data as parameters capable of identifying re-engineering trends for improving SMEs' digital marketing efficiency and sustainability.

Related studies and research align with our study's findings in most of the analyzed areas while providing opportunities for further expansion of the topic's literature. The digitalization of the service process provides a plethora of advantages for SMEs, according to Ingaldi & Klimecka-Tatara [7]. Based on Akbaba & Altındağ [51] findings, re-engineering processes on the SMEs' performance has been found to positively affect the organizational climate of the firms, thus promoting enhanced customer engagement and loyalty. Adop- tion of Decision Support Systems from SMEs leads to increased business performance, combined with useful intel for corporate decision-making [52]. Various digital marketing strategies tend to increase website traffic and visibility, as supported by Madlenák et al. [53], highlighting potential ways for SMEs to enhance digital marketing performance. Moreover, our research comes in terms with Sakas et al. [54,55] studies, where businesses' digital marketing strategies can be predicted by modeling website customers' behavior. SMEs' dig- ital marketing strategies can be refined [56] and further insights regarding key marketing metrics (traffic sources, SEO and SEM strategies, etc.) [56] could be obtained. These benefits can lead to increased amounts of website traffic and higher customer engagement for en-ergy SMEs [30,54,55], which improves the overall performance of SMEs' digital marketing activities. Many researchers have utilized contiguous simulation methods (for example, FCM) for extracting the required results [57–60].

Apart from the referred results, valuable insights also arise that regard the process of re-engineering SMEs' marketing procedures. It is highlighted that SMEs in the energy sector can benefit from focusing on their website customers' behavior. Web analytics that reflect website customers' behavior can efficiently impact and explain key digital marketing performance indicators, like organic costs, new visits, and bounce rate [30]. Re-engineering the digital marketing activities of energy SMEs through modeling their customers' online behavior has been found critical for enhancing SMEs' digital marketing results and, as a consequence, ensuring their sustainability. Thereby, this paper contributes to the re-engineering science by underlining the importance of focusing on exploiting SMEs' customer behavioral data to improve digital marketing performance.

Because the paper's results focused on SMEs in the energy market, some limitations arise regarding the generalization of the study's conclusions. Energy SMEs can increase the engagement of their customers and their website visibility by modeling their website behavior, but more testing should be conducted in other sectors too. Moreover, apart from examining SMEs in other sectors, multiple types of web analytics could be tested for their impact on digital marketing efficiency, such as website technical factors. Through the implication of other web analytic metrics, additional insights for the re-engineering of SMEs' marketing.

Author Contributions: Conceptualization, A.K. and D.S.G.; methodology, A.K. and D.S.G.; software,

A.K. and D.S.G.; validation, A.K. and D.S.G.; formal analysis, A.K. and D.S.G.; investigation, A.K. and D.S.G.; resources, A.K. and D.S.G.; data curation, A.K. and D.S.G.; writing—original draft prepa- ration, A.K. and D.S.G.; writing—review and editing, A.K., D.S.G., D.K.N. and D.M.; visualization,

A.K. and D.S.G.; supervision, A.K. and D.S.G.; project administration, A.K. and D.S.G.; funding acquisition, A.K., D.S.G., D.K.N. and D.M. All authors have read and agreed to the published version of the manuscript.

Funding: This research received no external funding. **Institutional Review Board Statement:** Not applicable. **Informed Consent Statement:** Not applicable.

Data Availability Statement: Not applicable.

Conflicts of Interest: The authors declare no conflict of interest.

References

1. Gupta, M.S. What is Digitization, Digitalization, and Digital Transformation? 2020. Available online: https://www.arcweb.com/ blog/what-digitization-digitalization-digital-transformation (accessed on 16 October 2022).
2. Chanias, S.; Myers, M.D.; Hess, T. Digital transformation strategy making in pre-digital organizations: The case of a financial services provider. *J. Strateg. Inf. Syst.* **2019**, *28*, 17–33. [CrossRef]
3. Skogland, M.A.C. A spatial approach to transformational change: Strategic alignment of the spatial and cultural environment. *J. Corp. Real Estate* **2017**, *19*, 285–299. [CrossRef]
4. Lynch, J.E. Marketing and business process re-engineering. *J. Mark. Pract. Appl. Mark. Sci.* **1995**, *1*, 45–53. [CrossRef]

5. Trahan, R.T.; Hess, D.J. Who controls electricity transitions? Digitization, decarbonization, and local power organizations. *EnergyRes. Soc. Sci.* **2021**, *80*, 102219. [CrossRef]
6. Hammer, M. Re-engineering work: Don't automate, obliterate. *Harv. Bus. Rev.* **1990**, *68*, 104–112.
7. Ingaldi, M.; Klimecka-Tatara, D. Digitization of the service provision process—Requirements and readiness of the small and medium-sized enterprise sector. *Procedia Comput. Sci.* **2022**, *200*, 237–246. [CrossRef]
8. IEA. Energy Policy Review Country Report—June 2020. 2020. Available online: https://www.iea.org/reports/european-union-2020 (accessed on 10 June 2022).
9. Ingaldi, M.; Brožovà, S. Popularity of e-shops during the COVID-19 pandemic. *Conf. Qual. Prod. Improv.—CQPI* **2020**, *2*, 1–10.
10. Meijer, L.L.J.; Huijben, J.C.C.M.; van Boxstael, A.; Romme, A.G.L. Barriers and drivers for technology commercialization by SMEs in the Dutch sustainable energy sector. *Renew. Sustain. Energy Rev.* **2019**, *112*, 114–126. [CrossRef]
11. Weischedel, B.; Matear, S.; Deans, K.R. The Use of Emetrics in Strategic Marketing Decisions: A Preliminary Investigation. *Int. J. Internet Mark. Advert.* **2005**, *2*, 109. [CrossRef]
12. Gour, A.; Aggarwal, S.; Erdem, M. Reading between the Lines: Analyzing Online Reviews by Using a Multi-Method Web- Analytics Approach. *Int. J. Contemp. Hosp. Manag.* **2021**, *33*, 490–512. [CrossRef]
13. Saura, J.R.; Palos-Sánchez, P.; Cerdá Suárez, L.M. Understanding the Digital Marketing Environment with KPIs and Web Analytics. *Future Internet* **2017**, *9*, 76. [CrossRef]
14. Chaffey, D.; Patron, M. From Web Analytics to Digital Marketing Optimization: Increasing the Commercial Value of Digital Analytics. *J. Direct Data Digit. Mark. Pract.* **2012**, *14*, 30–45. [CrossRef]
15. The World Bank. Small and Medium Enterprises Finance—Improving SMEs' Access to Finance and Finding Innovative Solutions to Unlock Sources of Capital. 2021. Available online: https://www.worldbank.org/en/topic/smefinance (accessed on 1 May 2021).
16. Richert, M. An energy management framework tailor-made for SMEs: Case study of a German car company. *J. Clean. Prod.* **2017**, *164*, 221–229. [CrossRef]
17. Xie, K.; Zhong, W.; Li, W.; Zhu, Y. Distributed Capacity Allocation of Shared Energy Storage Using Online Convex Optimization. *Energies* **2019**, *12*, 1642. [CrossRef]
18. Gardenghi, J.L.; Pereira, L.G.; Alcantara, S.M.; Figueiredo, R.M.C.; Ramos, C.S.; Ribeiro, L.C.M., Jr. Digitalization by Means of a Prototyping Process: The Case of a Brazilian Public Service. *Information* **2020**, *11*, 413. [CrossRef]
19. Zhou, W.; Wu, J.; Zhong, W.; Zou, S. Electricity Consumption Scheduling with Consumers' Comfort and Preference in Smart Grid. *Chin. J. Electron.* **2016**, *25*, 1151–1158. [CrossRef]
20. Fatima, Z.; Oksman, V.; Lahdelma, R. Enabling Small Medium Enterprises (SMEs) to Become Leaders in Energy Efficiency Using a Continuous Maturity Matrix. *Sustainability* **2021**, *13*, 10108. [CrossRef]
21. Ghosh, M. Measuring electronic service quality in India using E-S-QUAL. *Int. J. Qual. Reliab. Manag.* **2018**, *35*, 430–445. [CrossRef]
22. Kalia, P. Service quality scales in online retail: Methodological issues. *Int. J. Oper. Prod. Manag.* **2017**, *37*, 630–663. [CrossRef] Afonasova, M.A.; Panfilova, E.E.; Galichkina, M.A.; Beata, S. Digitalization in Economy and Innovation: The Effect on Social and Economic Processes. *Pol. J. Manag. Stud.* **2019**, *19*, 22–32. [CrossRef]
23. Zak, S.; Hasprova, M. The role of influencers in the consumer decision-making process. *SHS Web Conf.* **2020**, *74*, 3014. [CrossRef]
24. Ingaldi, M.; Ulewicz, R. How to Make E-Commerce More Successful by Use of Kano's Model to Assess Customer Satisfaction in Terms of Sustainable Development. *Sustainability* **2019**, *11*, 4830. [CrossRef]
25. Tortora, A.M.R.; Alfano, M.; Di Pasquale, V.; Iannone, R.; Cesare, P. A survey study on Industry 4.0 readiness level of Italian small and medium enterprises. *Procedia Comput. Sci.* **2021**, *180*, 744–753. [CrossRef]

26. Sakas, D.P.; Kamperos, I.D.G.; Reklitis, D.P.; Giannakopoulos, N.T.; Nasiopoulos, D.K.; Terzi, M.C.; Kanellos, N. The Effectiveness of Centralized Payment Network Advertisements on Digital Branding during the COVID-19 Crisis. *Sustainability* **2022**, *14*, 3616. [CrossRef]
27. Sakas, D.P.; Giannakopoulos, N.T. Harvesting Crowdsourcing Platforms' Traffic in Favour of Air Forwarders' Brand Name and Sustainability. *Sustainability* **2021**, *13*, 8222. [CrossRef]
28. Sakas, D.P.; Giannakopoulos, N.T. Big Data Contribution in Desktop and Mobile Devices Comparison, Regarding Airlines' Digital Brand Name Effect. *Big Data Cogn. Comput.* **2021**, *5*, 48. [CrossRef]
29. Sakas, D.P.; Giannakopoulos, N.T.; Reklitis, D.P.; Dasaklis, T.K. The Effects of Cryptocurrency Trading Websites on Airlines' Advertisement Campaigns. *J. Theor. Appl. Electron. Commer. Res.* **2021**, *16*, 3099–3119. [CrossRef]
30. Pilarz, D.; Kot, S. Evaluation Of Customer Service Quality And Security In Retail Network. *Syst. Saf. Hum.-Tech. Facil.—Environ.* **2019**, *1*, 647–652. [CrossRef]
31. Pires, F.; Barbosa, J.; Leitao, P. Data scientist under the Da.Re perspective: Analysis of training offers, skills and challenges. In Proceedings of the 2018 IEEE 16th International Conference On Industrial Informatics (INDIN), Porto, Portugal, 18–20 July 2018; pp. 523–528.
32. Alas, R.; Zernand-Vilson, M.; Vadi, M. Management techniques in Estonian organizations: Learning organization and business process reengineering. *Procedia—Soc. Behav. Sci.* **2012**, *62*, 494–498. [CrossRef]
33. Altinkemer, K.; Ozcelik, Y.; Ozdemir, Z.D. Productivity and Performance Effects of Business Process Reengineering: A Firm-Level Analysis. *J. Manag. Inf. Syst. Spring* **2011**, *27*, 129–162. [CrossRef]
34. Richard, N.; Agwor, T.C. Cost benefit analysis of re-engineering the business process in Nigerian banks. *J. Bus. Retail Manag. Res. (JBRMR)* **2015**, *9*, 44–53. Available online: https://www.jbrmr.com/cdn/article_file/i-21_c-192.pdf (accessed on 8 August 2022).
35. Romero, D.; Gaiardelli, P.; Pezzotta, G.; Cavalieri, S. The Impact of Digital Technologies on Services Characteristics: Towards Digital Servitization. In Proceedings of the Advances in Production Management Systems: Production Management for the Factory of the Future IFIP WG 5.7 International Conference, APMS, Austin, TX, USA, 1–5 September 2019; pp. 493–501.
36. Moro, S.; Pires, G.; Rita, P.; Cortez, P. A text mining and topic modelling perspective of ethnic marketing research. *J. Bus. Res.* **2019**, *103*, 275–285. [CrossRef]
37. Benkenstein, M.; Bruhn, M.; Büttgen, M.; Hipp, C.; Matzner, M.; Friedemann, W.N. Topics for Service Management Research—A European Perspective. *J. Serv. Manag. Res.* **2017**, *1*, 4–21. [CrossRef]
38. Castro-Nagatomy, E.; Castillo-Carmelinoa, J.; Raymundo-Ibañezb, C.; Perez-Paredesb, M.; Dominguez, F. Digitization model for costs and operating times reduction in Peruvian Banks. *Energy Rep.* **2022**, *8*, 639–652. [CrossRef]
39. Peters, A. The 10 Most Innovative Energy Companies in 2022. 2022. Available online: https://www.fastcompany.com/90724394/most-innovative-companies-energy-2022 (accessed on 16 June 2022).
40. Semrush. 2022. Available online: https://www.semrush.com/. (accessed on 16 June 2022).
41. SEO Glossary|Semrush. 2022. Available online: https://www.semrush.com/kb/925-glossary (accessed on 14 October 2022).
42. Clifton, B. *Advanced Web Metrics with Google Analytics*; John Wiley & Sons: Indianapolis, IN, USA, 2012; ISBN 9781118168448.
43. Shapiro, S.S.; Wilk, M.B. An analysis of variance test for normality (complete samples). *Biometrika* **1965**, *52*, 591–611. [CrossRef]
44. Havlicek, L.L.; Peterson, N.L. Robustness of the Pearson Correlation against Violations of Assumptions. *Percept. Mot. Ski.* **1976**, *43*, 1319–1334. [CrossRef]
45. Mental Modeler. 2022. Available online: https://dev.mentalmodeler.com/. (accessed on 16 June 2022).
46. Mkhitaryan, S.; Giabbanelli, P.J. How Modeling Methods for Fuzzy Cognitive Mapping Can

Benefit From Psychology Research. In Proceedings of the 2021 Winter Simulation Conference (WSC), Phoenix, AZ, USA, 12–15 December 2021; pp. 1–12. [CrossRef]

47. Abramowitz, M.; Stegun, I.A. Hyperbolic Functions. In *Handbook of Mathematical Functions with Formulas, Graphs, and Mathematical Tables*; Dover: New York, NY, USA, 1972; Volume 9, pp. 83–86.
48. Migkos, S.P.; Sakas, D.P.; Giannakopoulos, N.T.; Konteos, G.; Metsiou, A. Analyzing Greece 2010 Memorandum's Impact on Macroeconomic and Financial Figures through FCM. *Economies* **2022**, *10*, 178. [CrossRef]
49. Liu, T.; Qiu, T.; Luan, S. Hyperbolic-tangent-function-based cyclic correlation: Definition and theory. *Signal Process.* **2019**, *164*, 206–216. [CrossRef]
50. Akbaba, O.; Altındağ, E. The Effects Of Reengineering, Organizational Climate And Psychological Capital On The Firm Performance. *Procedia—Soc. Behav. Sci.* **2016**, *235*, 320–331. [CrossRef]
51. Pattanayak, S.; Roy, S. Synergizing Business Process Reengineering with Enterprise Resource Planning System in Capital Goods Industry. *Procedia—Soc. Behav. Sci.* **2015**, *189*, 471–487. [CrossRef]
52. Madlenák, R.; Madlenáková, L.; Švadlenka, L.; Salava, D. Analysis of Website Traffic Dependence on Use of Selected Internet Marketing Tools. *Procedia Econ. Financ.* **2015**, *23*, 123–128. [CrossRef]
53. Sakas, D.P.; Giannakopoulos, N.T.; Kanellos, N.; Tryfonopoulos, C. Digital Marketing Enhancement of Cryptocurrency Websites through Customer Innovative Data Process. *Processes* **2022**, *10*, 960. [CrossRef]
54. Sakas, D.P.; Giannakopoulos, N.T.; Kanellos, N.; Migkos, S.P. Innovative Cryptocurrency Trade Websites' Marketing Strategy Refinement, via Digital Behavior. *IEEE Access* **2022**, *10*, 63163–63176. [CrossRef]
55. Sakas, D.P.; Giannakopoulos, N.T.; Terzi, M.C.; Kamperos, I.D.G.; Nasiopoulos, D.K.; Reklitis, D.P.; Kanellos, N. Social Media Strategy Processes for Centralized Payment Network Firms after a War Crisis Outset. *Processes* **2022**, *10*, 1995. [CrossRef]
56. Terzi, M.C.; Sakas, D.P.; Seimenis, I. International Events: The Impact of the Conference Location. *Procedia—Soc. Behav. Sci.* **2013**, *73*, 363–372. [CrossRef]
57. Nasiopoulos, D.K.; Sakas, D.P.; Vlachos, D.S. The Contribution of Dynamic Simulation Model of Depiction of Knowledge, in the Leading Process of High Technology Companies. *Key Eng. Mater.* **2013**, *543*, 406–409. [CrossRef]
58. Sakas, D.P.; Vlachos, D.S.; Nasiopoulos, D.K. Modeling the development of the online conference's services. *Libr. Rev.* **2016**, *65*, 160–184. [CrossRef]
59. Sakas, D.P.; Nasiopoulos, D.K.; Reklitis, P. Modeling and Simulation of the Strategic Use of the Internet Forum Aiming at Business Success of High-Technology Companies. In *Strategic Innovative Marketing. IC-SIM 2017. Springer Proceedings in Business and Economics*; Sakas, D., Nasiopoulos, D., Eds.; Springer: Berlin/Heidelberg, Germany, 2019. [CrossRef]

***

2

Suggested business model for start-ups achieving goals of Atmanirbhar Bharat

Ashish Mohanty

Abstract

Self–reliance got fresh oxygen with Startup India and relief packages of post Covid-19. India had good presence of entrepreneurs for centuries being a nation of innovations. With talent pool and untapped markets, it offers a radical growth for start-ups. Business models should stimulate youths to come with mass production products and services at affordable cost. Tech Startups and wave of Internet, Telecom, and IT etc. with improved funding linkages have further strengthened the Indian Startups growth story. Business model innovators like, Amazon, Urban Company, Ola, BYJU's, Zomato, Paytm, etc. have revolutionised industries and sectors by overcoming dominant industry logics. Atmanirbhar Bharat visibly stands on the five pillars viz of Economy, Infrastructure, Technology, Demand, and a Vibrant Demography. The overall thrust of the start-up model is on creating enabling environment with viable business models and ecosystem as enabler of Sustainability.

Keywords: Business Model, Startups, Atmanirbhar, Ecosystem, Technology, AI, Digital Infrastructure, GDP, Startups, Unicorn, Action Plan, Sustainability.

1. Introduction

Self-Reliance is encoded in Indian Philosophy as voiced by Swami Vive- kananda, who advocated for the glorious past of India at the Parliament of the world's religion.

India has been a nation of innovations since centuries. The glaring examples of innovations have been the plastic surgery techniques of Sushruta, establishment of ancient Nalanda University in 5th Century as an excellence of learning, redefining role of Planning Commission to NITI Aayog; IT, Internet & Telecom, Startups India and beyond. The growth trajectory has transformed India, from simple family run business to technology driven nation.

In retrospect, the ideology and philosophy of Swami Vivekananda ji such as understanding education for creating values by life building, man and character making, by assimilation of ideas to strengthen the society and trans- forming ideas into unique and workable models can make India self-reliant.

Atmanirbhar Bharat is, therefore, not just a slogan as Swami ji observed, "*A man is not poor without any money, a man is really poor without a dream or ambition*". It is a call to seek participation, to develop an attitude, to get momentum, possibly with some sacrifice by coming out of comfort, to think of doing something that gives pride, be a Job Giver and an Entrepreneur by transforming opportunities into reality with a business or economic activity, generating employment and wealth creation.

With diversity of work and culture, India emerges a unique society glob- ally, which has learnt lessons to stand, survive and be self-reliant. A shining example could be our Vaccination Drive that addressed the needs of billions locally and helped other nations. This strengthens the voice for local, it stands for "Think Global and Act Local" adopting best practices, technologies and creating value for money by promoting local entrepreneurs, and Startups.

Historically, India has very good presence of Entrepreneurship and Trade that blossomed for centuries and continued with the journey of Start- ups and Entrepreneurship, making India 6th largest global economy. The pro- gressive growth of Industries and phases of developments , political will and policy framework supported the ecosystem of Atmanirbhar Bharat.

India has been witnessing development of Startup Community, a strong entrepreneurial culture, especially among millennials and in this direction, an advice to Entrepreneurs from legendary Ratan Tata is, "Strongly believe in your idea" and he feels that a good idea is one that makes a difference to people's lives.

Dr. Ashis Mohanty, Asst. Pattnaik, Global Institute of Management, Bhubaneswar

For socio-economic development of a country with huge aspiring youths awaiting avocation opportunities, the offerings of Startup are many folds - ranging from Innovation and Technology to new products and services, market & sectors, entrepreneurs, job creation to enabling job givers and together becoming drivers of wealth creation and economic growth.

With national agenda on Startups and Entrepreneurship, vision of Honourable Prime Minister of India, Shri Narendra Modi has been, "I see Startups, technology and innovation as exciting and effective instruments for India's transformation". To make India a US$ Trillion economy and world's second-largest economy by 2030 (Standard Chartered - Quartz

India, qz.com), focus is on role of Stakeholders in addressing early failures, enabling unique replicable business models and fund linkage.

Startups connect local growth as when local busi- nesses flourish, they create jobs and generate income that could be spent and in- vested locally. Any rational of the government that takes care of the economic well- being and advancement of its constituency pays special attention to laws and regu- lations affecting local small and medium size enterprises (SMEs).

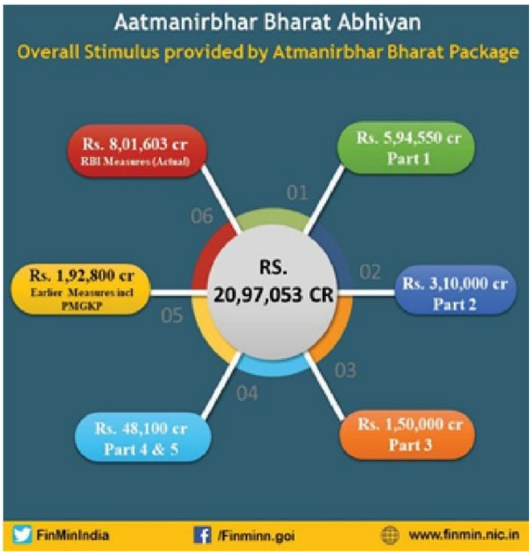


Figure 1: Government Relief Package on Atmanirbhar Bharat Abhiyan

Nevertheless, attention of Stakeholders, right from Atmanirbhar Bharat Abhiyan.
Regulators to evolving collaborations among Academic Institutions and In- dustries will pave the way for entrepreneurial environment. The National Planner had vision in framework while defining a Startup with an entity which works towards Innovation, Development or Commercialization of New Prod- ucts, Processes or Services driven by Technology or Intellectual Property or alternatively, a scalable business model with high potential of employment generation or wealth creation. This needs regular finetuning as any Startups once recognized by DPIIT should not run pillar to post for funding or other support and such definition and recognition be acceptable to all agencies.

The call for Atmanirbhar Bharat visibly stands on the five pillars of Economy, Infrastructure, Technology, Demand, and a Vibrant Demography and got support from the government with a package estimated of more than Rs. 20 lakh crores addressing sectors like, MSME, NBFC, real estate, power sectors, etc., to free food grains to migrant workers, to agricultural marketing reforms and sectors like, defence, aviation, power, mineral, atomic and space respectively.

2. Role of stakeholders & ecosystem and emergence of start-ups

De novo firms that unleash creative destruction shift surpluses from rent-seek- ing large producers to consumers and broader society, successful Entrepre- neurs innovate, bring new products and concepts to the market, improve mar- ket efficiency, build wealth, create jobs, and thus enhance economic growth. At the same time, economic goals have been at the core of Policy Makers, which include ease of doing business, promoting foreign investment, export promotion and import substitution, job creation, skill development and entre- preneurship.

Entrepreneurial Ecosystem are governed by multi-stakeholders and with reference to Startups, these Stakeholders and Individuals interact with each other, playing different roles depending on the stage of the Startup and thus influence the Startup Ecosystem. Of these, there are ingredients that shape healthy entrepreneurial system, like Culture, Talent, Infrastructure, Global Mindset, Regulations, Capital, Know-how, Rebellion, Market, Com- munication Skills, etc. and appropriate use foster Startups Ecosystem in any economy.

Stakeholders of Startups include, Government, State Startup Missions, Public Sectors, Private Corporate and other

Business Community, Higher ed- ucation Community, Academic & Research Organizations, Venture Capital funds, and Startup Community. Role of these stakeholders assume signifi- cance for success of Startups and self – reliance movement in India.

Startup Ecosystem, inter-alia includes Ideas, Inventions and Research, stages of Startups, Entrepreneurs, Team Members, Investors, Mentors, other entrepreneurial people, people from related Organizations and this establishes inter-dependency amongst different Stakeholders to make a healthy ecosystem conducive for business to grow, nurture and flourish.

"Invest India" has been landmark initiative of the Prime Minister for the Indian economy to tap the entrepreneurial potential, enabling the talent of India to dream of ideas, put them in action, and convert them into game changing ventures to revolutionize and accelerate the Startups in India.

The modus operandi is coupled with initiatives of various Ministries of Govt. of India including of DPIIT, State Startup Missions and reforms announced through successive budgets from 2014-15 to 2021-22. It created multi-dimensional avenues for Startups and SMEs, fostering and nurturing the fledgling Startup ecosystem. This includes Incubator, Biotechnology and Research Parks, Setting up of Startup Fund, Startup India Action Plan, set- ting up Funding Mechanism, National Innovation and Startup Policy, Atal Innovation Mission (ATM) for fostering Research & Development by Indus- try – Academic Collaborations, Skill India Mission, Seed Fund Scheme and similar initiatives and schemes with ease of doing business measures.

Technology has been shaping the entrepreneurial culture and develop- ment in India. The emergence of IT, Telecoms and internet in mid eight- ies made operations easier, faster and disrupted the landscape of many of its products and services such as Artificial Intelligence, Augmented Reality, Robotics, Material Sciences, etc., representing good business models with significant contributions to the economy. In the process, India could witness sizeable growth from a dozen to over 60,000 Startups and a strong Startup Ecosystem as could be viewed from Table 1:

Table1: Key Govt. Schemes Announced

Timeline	**Some Government Schemes**
2014	Make in India to make manufacturing destination
2014	Support for International Patent Protection in Electronics & Information Technology
2015	Digital India for a digitally empowered society
2015	MUDRA Bank for small rural businesses
2015	Skill India for Skill & Entrepreneurship support
2015	Atal Innovation Mission to encourage innovation
2016	Startup India Online Portal AND SIDBI "Fund of Funds for Startups
2017	NewGen Innovation & Entrepreneurship Devt.
2017	Dairy Processing & Infrastructure Devt. Fund
2019	Tech. Incubation & Devt. of Entrepreneurs
2021	Startup India Seed Fund Scheme

The natural calamities like, Covid-19 pandemic have been impacting the growth of start-ups. However, with gradual shift for adoptability of Deep- tech adversity and SaaS combined with M&As, Tech Startups are moving quickly from anxiety to adaptation, offering technology driven products at affordable cost, in order to stay ahead of the curve and moving to new geo- graphic markets in cities like Chennai, Pune, Hyderabad, Ahmedabad, Kol- kata, Kochi, Patna etc.

Startups in India across different verticals have stepped up digital in- frastructure and, in the process, managed to reach out to the widest corners of the country where Work from Home (WFH) has ensured better customer experience. Technology driven solutions, such as UPI interface have been changing the landscape of the ecosystem in digital space and efforts are made to upgrade the digital infrastructure in place. This has led to growth of many Startups in segments like, Fintech, Edtech, Agritech, Healthtech, Logistech, etc., creating enormous value by enabling seamless transactions, catalysing innovation, and generating efficiency and transparency for users.

The rise of Public Digital Platforms represents a productive engage- ment between the government and Indian industry to work together in tack- ling crucial socio-economic challenges. There are Startup like, *Quantela, who* did not evolve digitally, had to suffer. Similarly, in the Healthtech space, delivery process has been fractured, whereas *Telemedicine* has gone one step ahead. With adaptation of technology and meeting infrastructure need, Founders need to keep talent and skill them to remain a creative contributor.

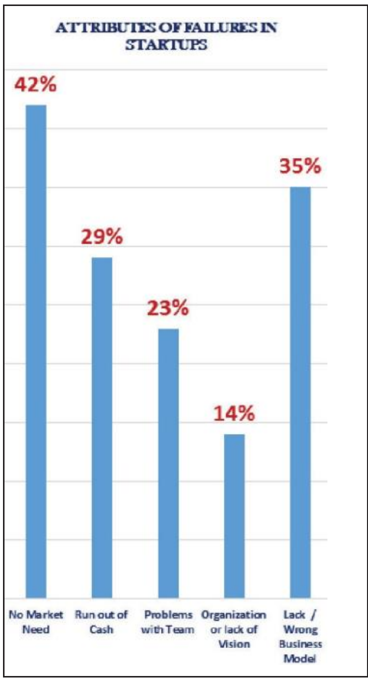
3. Business models: Need and proposed model to support small ventures

The process of Atmanirbhar Bharat might also have to draw attention of failures in Startups and attributes of successful Founders. The business models of innovators like, Amazon, Skype, Uber. Urban Company, Ola, BYJU's, Zomato, Paytm, etc. have desrupted the market Amazon became the biggest bookseller in the world without owning a store, Skype as largest telecommunication provider worldwide without having any network infrastructure, Uber & Ola revolutionized the taxi business without a taxi or taxi driver, Paytm revolutionized the financial Services. These entities reached to billion dollars market capitalisation with sound business models and also adopting a sustainable competitive advantages holding Value Proposition, Market Segment, Value Chain, Cost Structure, Profit Potential, Value Network, Competitive Strategy in respective areas.

NASSCOM (National Association of Software and Services Compa- nies) has been overviewing the working of Tech Startups in India. In one of their studies on scaling up of some 100 Startups, focused on FinTech, Re- tailTech and B2C segments that could indicate the journey of a venture from Idea stage or beginning to its growth etc. Such studies are also quite helpful to Startups or new Entrepreneurs to learn and sustain. Stakeholders may fo- cus on attributes to arrest ongoing failures, *market for products and services with unique business models* and other attributes of Successful Founders for more and more success stories (Figure 2).

Research observes that strengthening policy and institutional support, creating local communities and sustainable cost advantages help in creating more and more success stories in small towns as well support Vocal for Local. It also highlights the need of a Business Model (BM), as essence of the suc- cess of the Startups with right mix of Innovation & Technology.

As research suggests the Business Model (BM) attempts to replace strategy as point of start (Casadesus-Masanell and Ricart 2011) to gain com- petitive advantages in the dynamic market driven environment with innova- tion and entrepreneurship integral to the industry, services, business, society and economy. *The entrepreneurs* look for innovative opportunities to develop an innovative idea translating into viable *business and institutions* become role model of innovation in existing areas of business, in public services and for new ventures and with *strategy* in place innovation is brought to the mar- ket successfully (Drucker,P.F., 1985). Founders give everything to create an entity, from earnings to career and even personal life many a times.



SUCCESS ATTRIBUTES
Vision to Identify Problem and Develop Solutions.
Follow their Dream.
Founders are focused with ability to prioritize.
Start with small - a minimum viable product (MVP).
Know Customers or Potential Customers.
Have perseverance and not "Overnight success".
Take measured Risk launching a business.
Make sacrifice to be successful.
Sell products with Customer Satisfaction, Competi- tive Offerings, Product – Price – Market Fits.
Hire Right & Willing Talents and establish a Winning Culture
Call upon Mentors with experience, skills.
Communicate with internal & external stakeholders.

Figure 2: Compiled by Author also using web data from CBInsights, Researchgate. net etc.

3.1 Suggested Business Model for Startups

Over decades, need of Business Model (BM) has been discussed by many re- searchers, some as key driver of corporate success (Martins et al.2015), some as an integral part of management research (Lambert & Davidson 2013) and some have observed that BM is likely to replace strategy for gaining competi- tive advantage (Casadesus-Masanell & Ricart 2011).

The viability of an entity is influenced by number of internal and exter- nal factors and therefore, there *cannot be one fit business model that suits to all business entities*. However, there are certain components identical to all types of business entities and help to achieve viability of an entity. Various studies conducted in the past have suggested certain models for adoption by business entities and that may contribute positively for the success of a busi- ness entity. The business model navigator suggested by 'Frankenberger et al., 2012; Gassmann et al., 2013' describes 'Four Elements' with the dimensions as follows:

3.2 What, Why, How, Who, Business Model

Gassmann investigated the evolution of business models (Gassmann, 2012) and proposed 55 generic business model archetypes (Gassmann et al., 2013) opining that any existing business model can be described by using these in- puts. Further, some of the studies pointed out that the archetype concept can- not be adopted uniformly and there are many firms that used their own models and implemented successfully. The Four-Element business model is repre- sented below. The diagram shows the business model Navigator consisting of four leading questions What, Why, How and Who? This is further supple- mented by additional three main components of each business model viz. the Value Proposition, the Profit Mechanism and the Value Chain.

The 'Four-Box Model' presented in figure 4 from Johnson (Johnson, 2010; Johnson et al., 2009) describes business models and it contains four building blocks viz. the customer value proposition, key resources, key processes, and the profit formula. In this, the 'Customer Value Proposition' (CVP) is based on the famous 'job-to-be-done' concept (Christensen, 2004), which argues that customer preference in buying a product or service increases only when customer is convinced that it fufills its requirement. For example, we do not buy a drilling machine for the sake of drilling, but ultimately interested in the hole it drills (Christensen, 2004)). Johnson's four-box model is well founded in practice with drawback that cannot (easily) be used to visually map the business logic/architecture and thus functions more as a thinking model.

Stähler (2002, 2013) has suggertsted another model that consists of the value architecture, the value proposition, the revenue model as well as the team and its values. The features of this model are that it raises several ques- tions about the business a start up proposes to take up. These questions have much significance in a business model conception phase. It is organised in a Canvas-like framework. As compared to other business models, study descri- bes business models as social systems where it focuses on the relevant issues by raising certain questions for a sustainable business model, like, what does a Startup offer values creating steps, value chain, core capacities, kind of service offered, revenue

model and value entre- preneur perceives. The- se questions are of much relevance as it provide a set direction and requi- red homework before taking up the Startup in true sense as a success- ful business model.

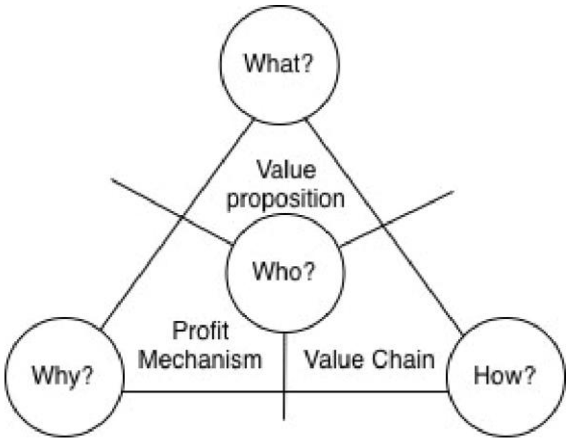


Figure 3. Business Model Navigator according to Gassmann et al. (2013)

3.3 Proposed Start- up Business Model

Based on past research studies, opinion of ex- perts and some success- ful business models sur- veyed, the present study develops the following business model for the success of Startups as in the figure 5 below by the Researcher:
Success story of Madhukam, a brand of Herbal Hand Sanitizer developed by Adivasi Women in Chhattisgarh with guidance from Samarth Jain, a scien- tist from the base of, the traditional mahua brew, which is an integral par of Adivasi life and culture is a significant contribution to India′s collective fight against the coronavirus.

Bengaluru based Startup, Bellatrix Aerospace, developed a new propul- of Adivasi life and culture is a significant contribution to India′s collective fight against the coronavirus. Bengaluru based Startup, Bellatrix Aerospace, developed a new propul- sion system that lets satellites take on more payload. The indigenous electric (MPT) offers its customers the ability to take bigger payloads into space at a reason- able cost. The company also claims that it is eco-friendly and a cleaner alter- native to the existing electric propulsion.

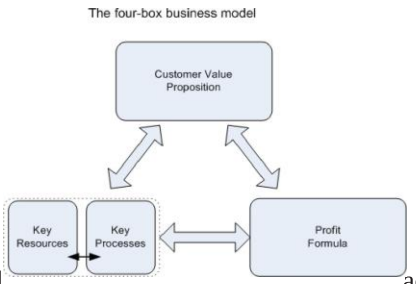


Figure 4: Four-Box Business Model according to Johnson et al. (2009).

Conclusion

Overall, right from ideologies of our greatest philosophers, Swami Vive- kananda to our Prime Minsiter, the thrust is on creating enabling environment and ecosystem which help young generation of this country to be the enabler of self sustainability, employment generator and also creator of the wealth to restore the glorious past of India. The success of either entity or the entrepre- neur is governed by governing principles of the business. Enterpreneurship is influenced by multiple factors including uniqueness of the business model supported by innovation and technology driven solutions.

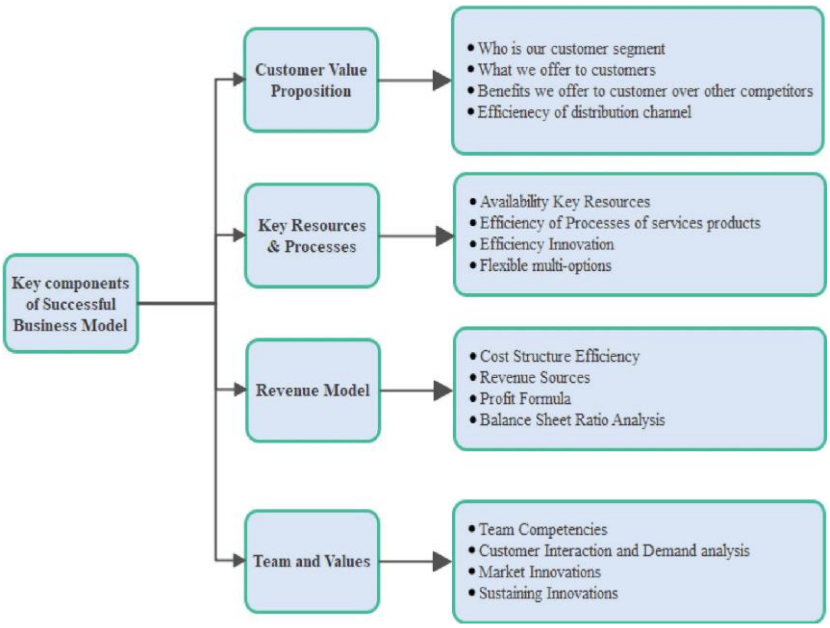


Figure 5. Business Model Process Flow

The study has shown that business centric action plan based on areas of operation, milestones, and strategies for marketing and social media, play an important role in taking up a Sustainale Venture. The increasing trends of con- centration of Startups in select metros including attention of Investors needs movement to small cities. Startups could find their strong presence in sectors like, AI, Technology driven solutions, Digital Infrastructure, etc. At the same

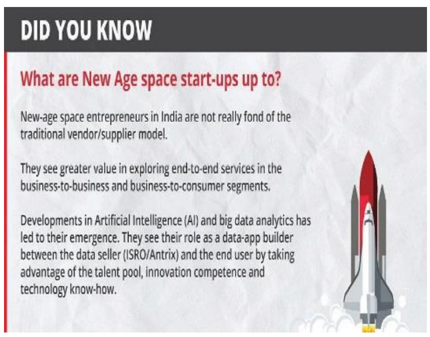


Figure 6. Success Strories of Atmanirbhar Bharat in progress with unique Models

time, innovative models and technology also helped many entrepreneurs to move out of big cities and establish their entities in Tier 2 and 3 Cities that witnessed some movements in small towns as well. Need of the hour is to es- tablish support on resources and avenues right from technologies to funding, mentorship, handholding by Incubators, Industry and Academic Institutions that can disrupt the market and entrepreneurship and shape success of Startups fulfilling the aspirations of Atmanirbhar Bharat, becoming global leader and an economy of US $ 10 Trillion. With more Startups reaching Unicorn, it is equally essential to support these Startups to start earning profits, generate employment and create wealth.

With pace of development of Startups in most of the States, the ecosystem needs better attention in States with higher population to create better local entrepreneurial opportunities. Similarly, better focus might require for incen- tivizing the entrepreneurial activities in North Eastern States to engage and participate for a holistic development. The manufacturing sector will remain backbone of any economy with potential to create large scale employment beside economic growth to a higher trajectory. With emerging areas like Fin- tech, Agritech, Healthtech, Edtech, SaaS etc, this sector will keep drawing attention and impetus to the development of this sector. Initiatives of Make in India to make India a hub for all kinds of manufacturing & design by fa- cilitating investments in key sectors, fostering innovation and Infrastructure development will be of great significance.

Systematic Appraisal of these developments indicate manifold growth from traditional to innovative technology driven solutions. The various stages of lifecycle of Startups also reflect challenges faced by Startups, global perspective influencing the mechanism and current state of growth of Startups that made India a hub of young entrepreneurs. The lesson is that both success

and failures are equally important aspects of any Startup Ecosystem and adoption of innovative Business Models with advanced Technology, Artificial Intelligence, are important for their long term growth and generating profits.

References

1. Thomas, Tom K, Chandramana, Sudeep B., ‘Role of Start-ups in Build- ing Atmanirbhar Bharat’, (2020), MACFAST Innovation & Corporate Synergy, Conference: Atmanirbhar Bharat: A Roadmap to Self-reliant India, Thiruvalla https://www.researchgate.net/publication/346654510_ Role_of_Startups_in_Building_Atma_Nirbhar_Bharat
2. Business World, ‘Atmanirbhar Bharat, Tech Dominance And The Need For New Business Models’ http://www.businessworld.in/article/Aat- manirbhar-Bharat-Tech-Dominance-and-the-need-for-New-Business-Models/08-03-2021-383139/
3. ‘Startup Connect: Indian Startups Stepping up Digital Infrastructure’, (2021), https://apacnewsnetwork.com/2021/06/startup-connect-indian- startups-stepping-up-digital-infrastructure/
4. Department of Economic Affairs, ‘National Infrastructure Pipeline Report of the Task Force’, Ministry of Finance Government of India https://dea.gov.in/sites/default/files/Report%20of%20the%20 Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-i_1.pdf
5. https://www.meity.gov.in/writereaddata/files/india_trillion-dollar_digi- tal_opportunity.pdf
6. Invest India, ‘Atmanirbhar Bharat Abhiyaan - Self-Reliant India’, https://www.investindia.gov.in/atmanirbhar-bharat-abhiyaan
7. ‘Swami Vivekananda’s vision of Self-Reliant India’ https://tfipost. com/2020/07/swami-vivekanandas-vision-of-self-reliant-india/
8. 50 Failed Startups in India: Mini Case Studies https://www.hellomeets. com/blog/failed-startups-of-india/
9. Cantamessa, M., Gatteschi, V., Perboli, G., & Rosano, M. (2018). Start- ups’ roads to failure. *Sustainability*, *10*(7), 2346.
10. CBInsights. 166 Startup Failure Post-Mortems. (2016). https://www. cbinsights.com/blog/startup-failure-post-mortem/

***

3

Human Resource Information Systems (HRIS) - Its role and importance inBusiness Competitiveness

Jaysingh Mishra

ABSTRACT

Emerging hyper-competitive era in the last few decades has increased the need of information system and technology in human resource management for competitiveness. The revolution in information technology is completely and swiftly redefining the way things are done in nearly every field of human activity. Human resources and information technology are two elements that many firms are looking to utilize them as strategic weapons to compete. Information systems especially developed for human resource management referred as human resource information system (HRIS) is an integrated system necessary to collect, record, store, manage, deliver and present data for human resource and hence promotes effectiveness of human resource system. Human resource technology or human resource information system shapes an interaction between human resource management and information technology. There has been a considerable increase in the number of organizations gathering, storing and analyzing information regarding their human resources through the use of human resource information system. HRIS has become a critical factor in making business competitive and effective. The present paper focuses on the role and importance of HRIS towards business competitiveness. The paper will also highlight the need, components, benefits and functions of HRIS.

Keywords: Human resource information system, business competitiveness, human resource management, information system.

Introduction

Emerging hyper competitive era in the last few decades has increased the need of information systems and technology in human resource management for competitiveness. Information systems contribute to improve the organizational performance, and increase the competencie of human resource professionals. In today's global competitive business environment, the organizations broadly implement information systems and information technology to change- improve-transform the human resource management system. With the evolution of information systems and technology, meeting information requirements has been greatly enhanced through the creation of Human Resource Information Systems (HRIS). HRIS merges traditional human resource management as a discipline and in particular it's basic human resource activities and processes with the information technology field. Human resource professionals in current scenario require accurate and timely data on recruitment, selection, training, development, compensation, productivity, quality of life, attrition rate etc. HRIS provides a complete support in the management of all processes, activities, data and information required to manage human resource in a modern company. It covers all aspectsof human resource management and is an integrated system necessary to collect, record, store, manage, deliver, manipulate and present data for human resources. The present paper aims at providing the role and importance of HRIS towards business competitiveness. The present paper also highlights the need, components, benefits and functions of HRIS.

HRIS DEFINED

Human Resource Information Systems (HRIS) is a process that utilizes the information technology for the effective management of human resource functions and applications. It is a computerized system typically comprising a data base or inter related data base that track employees and their employment specific information (Gill and Johnson, 2010). It can be briefly defined as integrated systems used to gather, store and analyze information regardingan organizations human resources (Hendrickson 2003).

HRIS – Why it is needed?

HRIS provide human resource professionals with opportunities to enhance their contribution to the strategic direction of the firm, First by automating and devolving many routine human resource task to the line management, HRIS provides human resource professionals with the time needed to direct their attention towards more business critical and strategic level tasks, such as leadership development and talent management (Lengnick et al., 2003). Other incentives for HRIS implementation are mentioned as following.

* Formulation of policies and programs related to human resource.

* Facilitating decision making in areas like promotion, transfer, nomination, settingemployees provident funds, retirement, gratuity, leave travel concession and earned leave compensation.
* Supplying data and submitting returns to government and other statutory agencies.

* Collecting appropriate data and converting them to information and knowledge for improved timeless and quality of decision making.
* Producing a greater number of varieties of accurate and real time human resource related reports.
* Increase competitiveness by Reengineering human resource processes and functions.

* Improving employee satisfaction by delivering human resource services more quickly and accurately.
* Provides a comprehensive information picture as a single, integrated data base; this enables organizations to provide structural connectivity across units and activities and to increase the speed of information transactions (Lengnick et al., 2006).

Considering these facts, it is important to mention that the human resource management function needs to invest in information technology training and communicate the benefits of employee's participation and involvement in HRIS services (Panayotopoulou et al., 2007).

Components of HRIS

HRIS has major three functional components as shown in Figure 1.

Figure 1: Components of Human Resource Information Systems

Input- Input function provides the capabilities needed to get human resource data intothe HRIS. It enters personnel information into the HRIS. First of all procedures and processes are required to gather necessary data, once collected, these data's must be entered into the system. Edit tables can be used to determine if the data are acceptable. These tables contain approved values against which the data areautomatically checked. The system should have the capability to easily update and change the edit tables. Now days scanning technology permits scanning and storageof an actual image of an organization document including signatures and handwritten notes.

1. Data maintenance- Data maintenance function is responsible for the actual updatingthe data stored in the various storage devices. As changes occur in human resource information, this information should be incorporated into the system, as new data are brought into the system it is often desirable to maintain the old data in the form of historical information. It updates and adds new data to the data base after data have been entered into the HRIS.
2. Output- This function of HRIS is most visible one because the majority of HRIS usesare not involved with collecting, editing, and updating human resource data; ratherthey are concerned with information and reports to be used by the systems. In order to generate valuable output for computer users, HRIS processes output, makes necessary calculations and formats the presentation.

HRIS is a computerized system that aids in the processing of information relating to human resource management. A well-knit HRIS acts as a worthy decision, a device; designed to fulfill the manpower information needs of the organization (Kovach and Cathcart, 1991).

Benefits of HRIS

HRIS helps in recoding and analyzing employees and organization information anddocuments, such as employee hand books, emergency evacuation and safety procedures (Fletcher, 2005). It also helps the organizations to keep an accurate, complete and updated data base that can be retrieved from reports and manuals. HRIS advantages can be systematized according to Kovach (2002).

1. Increase competitiveness by improving human resource operations
2. Ability to implement a number of different operators to human resource
3. Shift the focus from the operational(transaction) human resource information to strategic human resource information
4. Include employees as an active part of the HRIS
5. Reengineering the entire human resource department

(Krishna and Bhaskar, 2011) summarized the benefits of HRIS as mentioned in Figure 2.

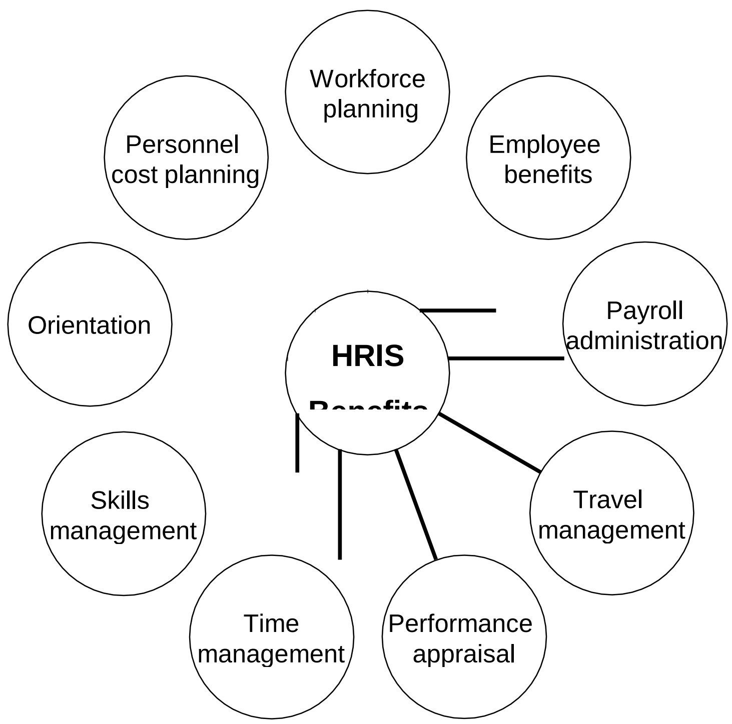


Figure 2: Overall benefits of HRIS

HRIS benefits can be categorized as following:

1. Benefits for management
2. Benefits for human resource department
3. Benefits for employees.

1. Benefits for management includes:

* Increase of overall decision making efficiency.

* Cost reducing and better control of budget.
* A clear vision of business including business transparency.
* Sharp insight into the process of hiring and firing employees, at the aggregate level.

2. Benefits for human resource department includes:

* Possession of single data base of all employees in the company with all necessaryinformation and opportunities of different reports.
* Elimination of paper forms that are much slower and with higher probability of errors.
* The ability to update data bases in real time, on the basis of all changes, which is ofextreme importance to regionally diversified companies.
• Minimize errors that are caused by human factor.
* Improved management system in accordance with the legislation.
* Elimination or reduction of redundancy in the system.
* Standardization of business processes.

3. Benefits for employees:

* Saves time (Time management)
* The possibility of independent access to data, which often means working in onesoftware window.
* 24/7 data availability.
* Increasing staff morale.
* Automatic tracking and reminder to business obligations and events.
* Encouraging employees to make decisions and initiatives on the basis of informationobtained in the HRIS system.
* The ability to attend internal training courses via the web and the development ofpersonal skills and knowledge.

HRIS also has the potential to fundamentally affect revenue channels, beyond cost reduction and productivity improvements. It may enhance innovation, and speed up time to market for products. In addition HRIS can fundamentally change the way individuals relate to one another and to their organizations through various communication media.

Importance of HRIS in Business Competitiveness

Survival and success in current fast paced globalized economy increasing depends on competitiveness i.e. ability to compete. It is multidimensional concept. It has become the name of the game today to describe economic strength of a country or industry or firm with respect to its competitors in the global market economy in which goods, services, people, skills and ideas move freely across geographical borders. Information management, in general and HRIS in particular, has become critical factor in making business competitive and effective as shown in Figure 3. Companies are increasingly realizing the advantage of having systems that capture, analyze and report on the host of human resource aspects thatare critical to running a business. Human resource management consist of the activities, policies and practices involved in obtaining, developing, utilizing, evaluating ,maintaining and retaining the appropriate number and skill mix of employees to accomplish the organizations objectives. HRIS is a key management tool used for understanding the patterns for human resource policies, actions and employee behaviors as well as for identifying gaps in human resource systems and the effectiveness of human resource systems. HRIS is a software package that provides a complete management system for human resource activities in businesses.

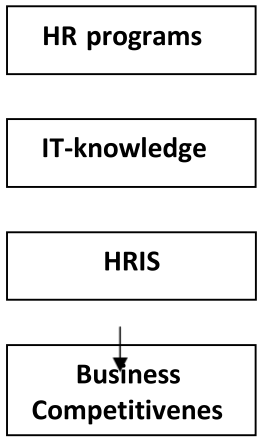


Figure 3: Road map business competitiveness

HRIS MODEL

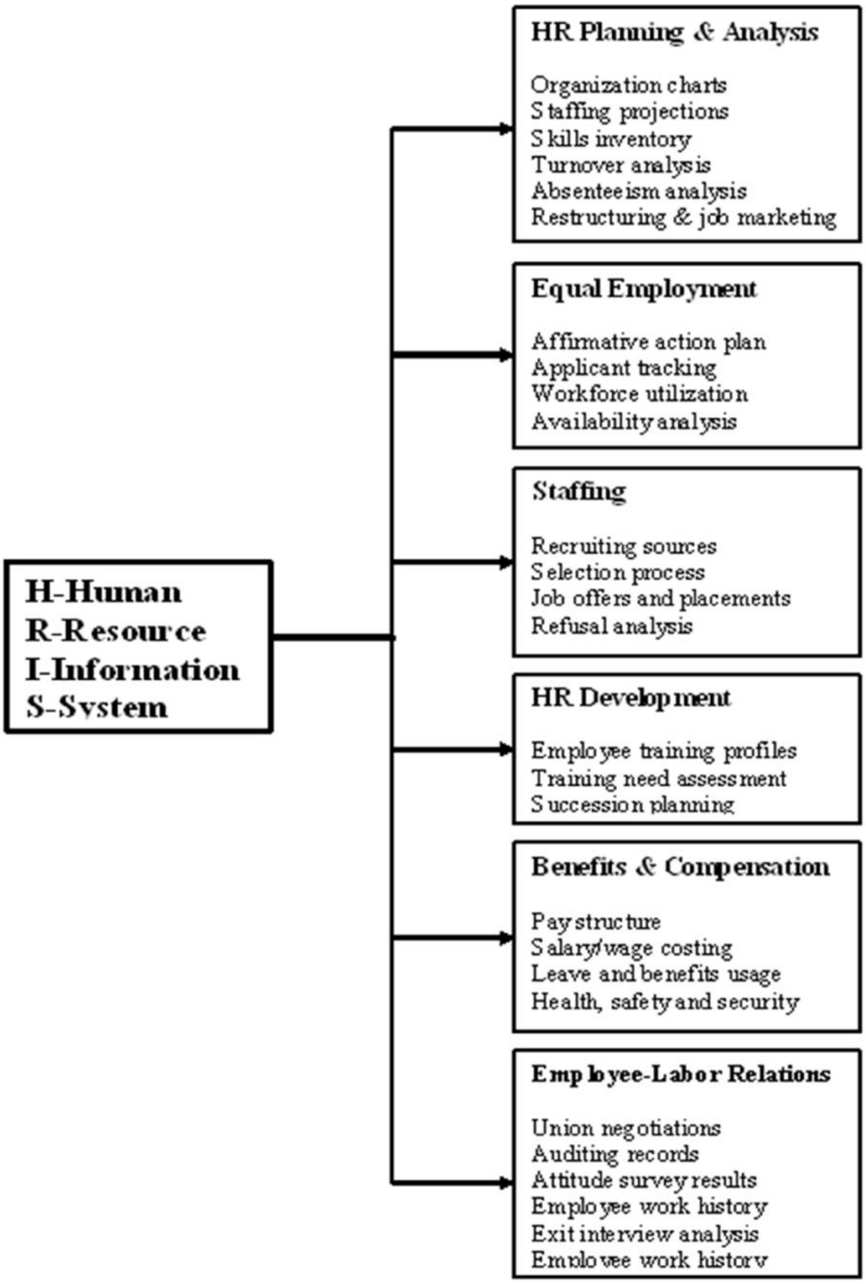
HRIS designed for human resource management plays a vital role in implementing the strategic business objectives of the organization, and in running the daily functions effectively and efficiently to improve the productivity and proficiency. HRIS has been addressed as a tool that organizations use to solve and manage a variety of issues and processes connected to the management of people. On the one hand, technology may be usedfor different purposes within particular human resource functions- for recruitment and selection, performance evaluation, compensation and benefits, training and development, health and safety, employee relation and legal issues, retention and work life balance (Enshuret al., 2002). On the other hand, a company that uses a complex mix of HRIS solutionsenables the human resource function to manage in human resources as well as employees information flow in an integrated approach across the entire employment cycle of each individual, thus shifting the attention from a process centered human resource to a customer(employee)-centered human resource management. The HRIS model is outlined in the Figure 4.

Importance of HRIS

HRIS primary role of integrating human resource management and information technologyhas lead to competitive advantage and hence attracted many human resource managers and professionals. Other vital facts of HRIS reported in literature are effective human resource decision making and also strengthening an organization's character (Sadri and Chatterjee,2003), reducing process and administration cost, speeding up transaction processing, reduce information errors and improve the tracking and control of human resource actions (Lengnick et al., 2003), crucial in terms of operating, controlling and planning activities in human resource (Lenderer 1984).

It can be summarized that HRIS, is a computerized system that aids in the processing of information relating to human resource management and has become a crucial element ofall organizations. It can be deemed as a device which is designed to fulfill the manpower information needs of the organization. Thus, the importance of HRIS is multifaceted, ranging from operational assistance in collecting, storing and preparing data for reports, simplifying and accelerating the processes and controlling the available data, reducing labor costs for human resource departments, and providing timely and diverse information to the management of the company, based on which it is possible to make quality strategic decisions related to human capital.

Figure 4: Model of Human Resource Information System (HRIS)



Functions of HRIS

HRIS functions interactively with human resource management systems such as human resource planning, staffing, training, and career development, performance management and compensation management (Kavanagh et al., 1990). The functions can also be categorized as following.

1. Create and maintain employee record:

The data being entered create an employee record and this record is maintained throughout employment. In most of the organizations the HRIS administrator isresponsible for creating and maintaining these records.

2. Ensure legal compliance: Data entered into the HRIS can be used to help the organization comply with government regulations in an accurate and timely fashion. Ensuring data

integrity and accuracy is very important and a key responsibility of human resource professional.

3. Human resource planning and forecasting:

Information from recruitment, training and development, and administrative subsystems, such as number of open positions, types of positions, employee skills and competencies, job rates, retirement eligibility and employee turnover rates can be used to help managers develop long range staffing plans and provide valuable information to the human resource professionals.

4. Talent management/Knowledge management:

The data that are entered into the system, such as skills, competencies, jobs held, training and employee development interests, can be used to help managers provide development opportunities for their employees, ensure that the appropriate employees are offered positions that will enhance their skills, provide the appropriate training for employees so that they can advance in the organization, and highlight an employee's interests and development paths. This information will help human resource professionals to provide more targeted advice and counsel to managers to create a development plan that meets organizational and employee needs.

5. Strategic alignment:

Information from the system can help organizations align human resource activities more effectively with their strategic plan.

6. Enhanced decision making:

The ability to extract data from the HRIS and use these data not just to create information but also to improve the quality of management decision has become increasingly important. Information needs toe be relevant, useful, timely and accurate.

Conclusion

The combination of Human resources and information technology known as HRIS are being implemented by many firms as strategic weapons towards the uprising business competitiveness. From the above-mentioned discussion, it can be deduced that HRIS has the potential to be an enterprise wide decision support system that helps to achieve both strategic and operational objectives. Firms are increasingly moving beyond manual human resource system today, by computerizing individual human resource tasks, installing HRIS and using the internets and intranet use of its human resources and maintain competitiveness in its market. HRIS can be seen as a spine of the company and vital in meeting the needs of all stakeholders in the company. HRIS enables effectiveness, efficiency and promotes competitiveness among the firms. Hence, HRIS must be driven by strategic vision and it should be implemented as an open system, where information technology facilitates communication freely between integrated features. Therefore comprehensive and effective HRIS must be driven by organization vision, value and culture. Finally, the paper has enlightened the strategic role and importance of HRIS especially towards business competitiveness. However, future studies should consider what makes successful implementation of HRIS.

References

Broderick, R., Boudreau, J.W (1991). HRIS for competitive Advantage: Interviews with ten leaders, CAHRS working Paper Series, Cornell University.

Broderick, R., Boudreau, J.W., (1992). Human Resource Management, Information Technology and the Competitive Edge. Academy of Management Executive, 6(2).

Enshur, E., Neilson, T., Vallone, E. (2002). Tales from the hiring line; Effects of internet technology on human resource processes. Organizational Dynamics, 31(3), 224-244.

Fletcher P. (2005). From Personnel Administration to Business Driven Human Capital Management: The Transformation of the role of HR in the digital age, In Gratuel and Stone (Eds), The Brave New World of Her, San Francisco, CA: Jossey-Bass, 1-12.

Gill, J., Johnson, P., (2010). Research methods of managers, Sage Publications Limited, Fourth Edition.

Gupta, P.K., (2004). HRIS, Himalaya Publishing.

Hendrickson, Anthony R (2003). HRIS: Backbone Technology of Contemporary HR; Journal of Labor Research, 24 (3), 381-394.

Kavanagh, M.J., Guetal, H., Tannenbaum, S. (1990). HRIS: Development and application.

Boston: PWS Kent Publishing Company.

Krishna, C.Y.S, Bhaskar, S.V. (2011). Assessment of support and benefits of HRIS in medium-scale textile industries. International Journal of Research in Economics & Social Sciences, 1 (2), 48-57.

Kovach K.A, Cathcart C.E (1991). Human Resource Information Systems (HRIS): Providing Business with Rapid Data Access, Information Exchange and Strategic Advantage. Public Personnel Management, 28(2),

275-282.
Kovach K.A, Hughes A.A., Fagan P., Maggiti P.G (2002). Administrative and Strategic Advantage of Human Resource Information Systems. Employment Relations Today, 29(2), 43-48.
Lenderer, A.L (1984). Planning and developing a HRIS. The Personnel Administrator, 29(8), 29-39.
Lengnick-Hall, Mark L., Moritz Steve (2003). The impact of e-HR on HRM function.

Journal of Labor Research 24(3), 365-379.
Ngai, E.W.T., Wat, F.K.T. (2004). HRIS: A review and empirical analysis. Personnel Review, 35(3), 297-314.

Panayotopoulou, L.,Vakola, M., & Galanaki, E. (2007). E-HR adoption and the role of HRM: Evidence from Greece. Personnel Review, 36(2), 277-294.
Sadri, J., Chatterjee, V. (2003). Building organizational character through Human Resource Information Systems. International Journal of Human Resource Development and Management, 3(1), 84-98.

***

4

Development of newbusiness models for corporate banking: Four scenarios

Gouri Shankar Moharana

After the retail segment, now the field of cor- porate banking is under pressure to innovate its business models. A combination of a tight-ened regulatory environment, strengthened competition, much-needed investments into digitalization, and the risk of an overheating economy are posing new challenges to thissegment. Hence the question of how future business models for corporate banking should

look like arises. In this article, four scenarios are proposed, which are based on two dimensions that are believed to have an impact on the business models in corporate banking. These dimen- sions are (1) the level of cooperation with fintechs (start-ups bringing together new business models centred on innovative technologies and financial services), and (2) the level of acquired digital capabilities. For each scenario a business model is developed and discussed. Our analysis reveals that corporate banks will have to get up to speed with fintechs for their survival, while cooperating with them is an encouraged practice going forward. By adopting customer-centric business models, transforming their culture and mindsets, as well as simplifying their legacy systems, corporate banks might be able to convert their challenges into opportunities.

Introduction

Rapidly progressing technologies, growing demands from corporate customers, and tightening regulations are just a few examples indicating aneed for change. However, these change driversdo not only threaten traditional corporate banks. They also generate opportunities for new entrants.With digital-born infrastructures, agile approaches to work, and a customer-oriented culture, financial technology start-ups (fintechs) offer sleek and effici- ent alternatives to traditional financial products and services.
Overall, fintechs have exponentially flourished over the past decade. Approximately USD 78 billion wasinvested into fintechs ventures since 2000, of which more than 50 % was allocated to fintechs in the B2B banking segment [Dany et al. 2016]. Neverthe-less, while at the beginning such dynamics where anxiously observed by incumbents, a more relaxed and cooperating approach emerged through time, supported by a regained confidence and a dedica- ted engagement that some pioneering banks have proposed.
As such, banks have begun to pave their way to digitalization by investing in fintech partnerships, internal incubators and accelerator programs, as well as acquisitions. Yet, engaging in such strategies requires particular efforts from banks, and many of them appear to be not equipped to develop them, since change must be integrated at the heart oftheir culture, processes and systems. More speci- fically, banks should start renewing their business models. This article has the aim to explore how future business models for corporate banks might look like.

Cooperation and exchange of resources

Cooperation is a phenomenon that brings parties together to achieve a common goal. The pursuit of goals is not only what enables cooperation, but also what shapes it. Indeed, cooperation empha- sizes the idea of interdependence. Firms belong to an environment in which interactions with cus- tomers, suppliers and even competitors are inevi- table. By adopting a term originating from biologi- cal sciences, such environment is typically definedas ecosystem.

In an ecosystem, 'cooperative competition', or co- opetition, is a typical feature. In this environment, competitors decide to work together when theynotice that they do not have a particular compe- titive advantage in a product or service, but would like to share the costs and become innovative faster, without necessarily having the right re- sources, information, know-how and capabilities at their disposal [Daft 2013; Benzin/Moormann 2016].

For instance, Royal Bank of Scotland (RBS) recently white-labelled the business funding start-up Ezbob, which objective is to provide loans to small and middle-size enterprises (SMEs) in a quicker time- span than traditional banks. RBS and Ezbob soon became partners and, in just five months, gave rise to Esme Loans, their automated lending inter- face. This technology enables RBS clients to easily request loans and receive the funding faster, thanks to a streamlined application and approval process.In this example, RBS did not have the needed know-ledge or technology to implement a more stream- lined loan process than in the traditional way and Ezbob did not have enough recognition and fund- ing to make profits faster. In this context, the two companies were competitors, each lacking specific resources to reach their goals.

Mr. Gouri Shankar Moharana, Assistant Professor, Global Institute of Management, Bhubaneswar

In the past, fintechs have been able to propose inno- vative and customer-centric value propositions. Thus, faster and more efficient solutions in supply-chain finance and even in the broader lending business, for instance, came to redefine traditional corporate banking. Most fintechs have further realized that they have more to gain by proposing their tech- nological expertise and platforms in a cooperating model that allows them leveraging the key assets of a bank to faster achieve the needed reach among cli- ents. On the other hand, some corporate banks have realized that a closer exchange with fintechs might enable them to be more innovative and introduce changes to their business models, while they can rely on established assets such as their capital, the clients, the expertise, and advisory skills. From goal sharing to resource interdependency, these are the reasons which push banks and fintechs to collabo- rate with each other. Hence, cooperation appears as a logical consequence of the evolution in the sector.

Nevertheless, not all corporate banks are profiting from this approach and thus late runners are taking the risk of being left behind. To be prepared for the challenges that corporate banks will be facing, fun- damental changes in banks' business models have to be applied.

Osterwalder and Pigneur [2002] define a business model as the link between strategy and businessprocesses. A business model is a core element fordetermining the purpose of a firm, how it creates,captures and delivers value. The Business Model Canvas (BMC) is an intuitive tool for business model design; it is a language to understand the rationale of a business as it provides a structured picture of the elements and their interconnections [Osterwal-der/Pigneur 2002, 2010].
The BMC consists of nine building blocks describinga company's business model, as shown in Table 1. These elements are (1) the Customers, i.e. the custo- mer segments a company serves; (2) the Value Pro- position, i.e. the company's products and services that satisfy the customers' needs; (3) the Channels through which the Value Proposition is delivered to the customers, i.e. through communication, dis- tribution, and sales channels; (4) the Customer Relationships, i.e. how the relationships with the clients are created and maintained; (5) the Revenue Streams, i.e. the income generated from selling the Value Proposition; (6) the Key Resources, i.e. the assets required to create value for the customers; i.e.human, financial, physical and intellectual assets;
(7) the Key Activities performed by the company to offer such elements; (8) the Key Partners that pro-vide resources and activities as well as (9) the Cost Structure, which collects all costs that result from the previously described eight blocks [Osterwalder/ Pigneur 2010].

Table 1: The Business Model Canvas of a Traditaional Corporat Bank

Building Block	Examples for Content in Corporate Banking
Customers	Large corporates; SMEs; Financial institutions
Value Proposition	Financial products and services
Channels	Website; Sales force; Branches
Relationships	Dedicated personal assistance; Long-term relationship focus
Revenue Streams	Fees and commissions; Net interest
Key Resources	Brand/Status; Track record; Capital; Financial expertise; Data
Key Activities	Borrowing; Lending; Advisory; Risk management
Key Partners	Suppliers of funds; Banks; Consultants; Supervision and regula- tory entities; Data providers; IT providers
Cost Structure	Cost of funds; System costs; Data providers; Employees; Infra- structure costs

Methodology

Following the goal to provide a defined setup ofwhere corporate banks are likely to stand in thefuture, the next step is to identify an appropriate methodology that suits the purpose. Design Science is a research methodology in the context of con- struction research. Recurrent in information sys- tems (IS) research, Design Science can also be used for the construction of artefacts in the field of management research [van Aken 2004] and thuscan also be applied in the creation and development of business models [Osterwalder 2004].

There are several approaches to applying Design Science. One of them is the Design Science Research Process (DSRP) developed by Peffers et al. [2008]. This methodology consists of a six-steps process model, namely, (1) Define the specific research problem and justify the value of a solution, (2) Derive the objectives of a solution from the problem definition, (3) Create the artefactual solution, (4) Demonstrate the efficacy of the artefact to solve the problem, (5) Observe and measure how wellthe artefact supports a solution to the problem and, (6) Communicate the problem and the artefact to researchers and other relevant audiences, when appropriate.

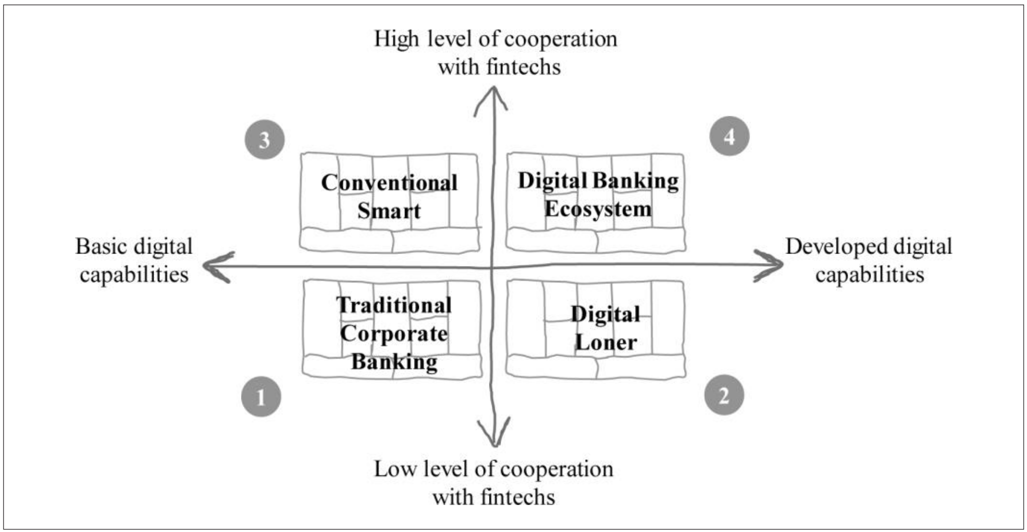
1. Development of scenarios and re-spective business models

The creation of a business model means considering many factors from customers to competitors, fromthe regulatory environment to disruptive trends. Based on two dimensions, which might shape the evolution of corporate banking in the future, four fundamental scenarios can be identified. Each scenario leads to a distinct business model (see Figure 1).

The dimensions of the depiction are (1) the degree of cooperation with fintechs and (2) the extent to which a bank has developed its digital capabilities.The former emphasizes the concepts of cooperation and external resources since they are crucial factors for the survival of banks. The second dimension is a measure to determine the degree of technolog adoption the bank strives to achieve in the future – in other words, how effectively and efficiently the bank has used its partners and external resources to build up platforms, to implement algorithms and analyse data, and eventually provide new servicesto its customers.

The scenarios have been extensively discussed with professionals in the field of banking digitaliza- tion of a large globally active corporate bank. The comments and results of these discussions have been incorporated into the revision of the business models till accordance with the assessments of the experts has been reached.

Figure 1: Scenarios for business modelsin corporate banking



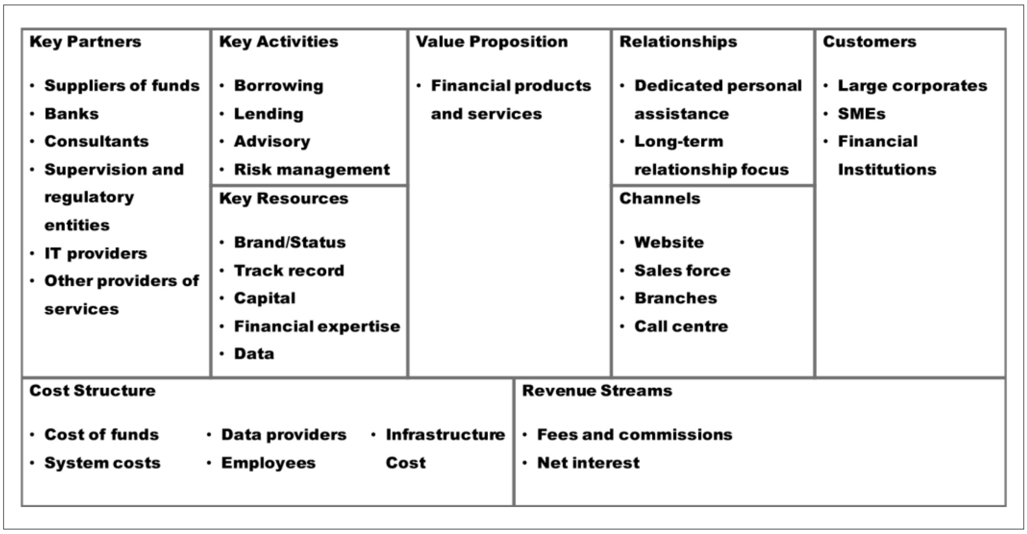
Scenario 1: Traditional Corporate Banking This scenario (see Figure 1, bottom left) show-cases the traditional business model of a corpo-rate bank. This type of a business model exists for decades and has undergone many transitions that allowed the growth and expansion of the business.Within this scenario, banks operate a full-service model meaning that one institution provides its cli-ents with a whole range of own-labelled products and services from current accounts to credit facili-ties [Dombret 2016].

The BMC of traditional corporate banking (see Fig- ure 2) reflects the nine building blocks of a corpo- rate bank's rationale in creating value. Starting from the customer perspective (top right), three groups of clients are distinguished: large corporates, SMEs, and financial institutions.

The bank's value proposition to its clients is its spectrum of financial products and services. Thoseare structured within the departments of the bank and are usually adapted to corporates' needs in capital. From cash management to capital markets, corporates can raise their debt, hedge their risks and invest. Relationship managers are essential to guide the client and understand their financial needs. Consequently, traditional corporate banks own branches in strategical locations and, in addi-tion, communicate their offers via their websites. The channels are thus revenue enablers for the bank. By making business, banks earn money from net interest on loans and other products, service fees and commissions. Conversely, banks have to paythe cost of funds for providing loans, which is pri- marily obtained from shareholder equity but also from consumer deposits, interbank borrowing and debt issuance.

Dedicated resources banks can rely upon are their legitimation as a financial institution, their legacy and brand status recognition – dangerously impact-ed by the financial crisis when clients lost trust in banks. Furthermore, the people employed, including relationship managers, back-office staff, financial and IT experts, just to name a few, compose animportant intellectual resource for running the bank.

Figure 2: Business Model Canvas for Traditional Corporate Banking



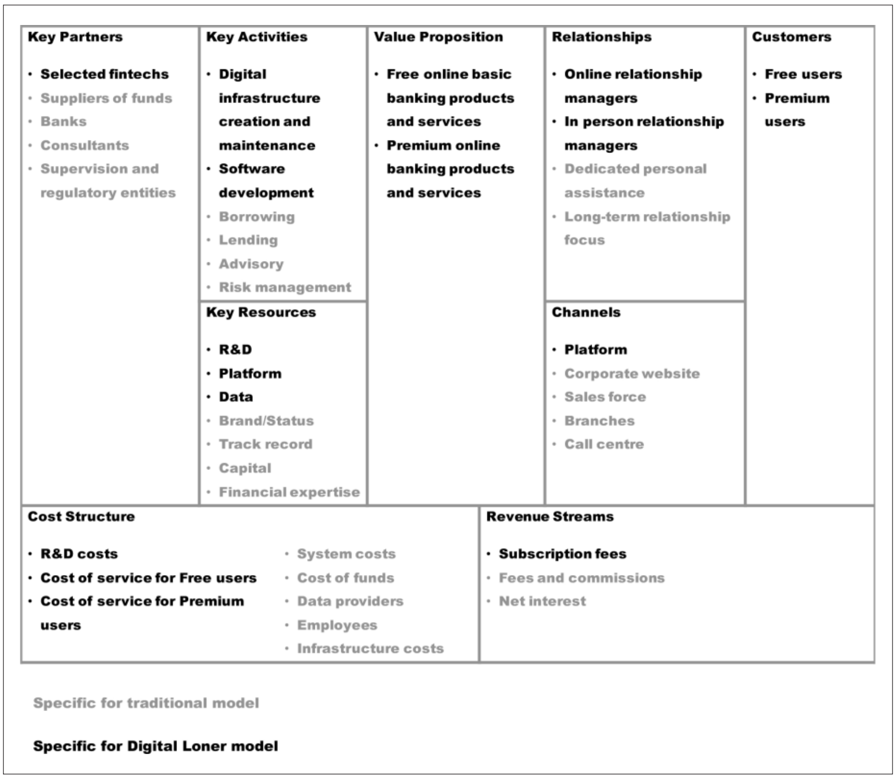
Banking systems and data play a key role as well. Banks further rely on the exchange of data withexternal providers for credit worthiness evaluationand know-your-customer (KYC) purposes. Key activities other than borrowing and lending include the management of risks. Inevitably, many risks arise from banks' business models and for thisreason the risk management function is an integral part of their organizational structure. Regulation imposes banks to save more money at the expense of their profitability and innovation plans [Green- wich Associates 2016].

Scenario 2: Digital Loner

In the second scenario (see Figure 1, bottom right), the bank transitioned from a traditional to a digital form since its digital capabilities have been well developed. The bank may be as digitalized as a fin- tech but the model does not ignore the tight regula- tions and high levels of risks a traditional corporate bank would face. A low level of cooperation with fintechs is also observed. The bank manages all the resources efficiently and, its internal Research & Development (R&D) unit is rather developed. To become fully digitalized the bank can make use of peer-to-peer (P2P) funding and its equity. Last but not least, the name 'Digital Loner' was given because the bank carries out a full digital transfor-mation on its own, plus, it operates in a confined environment in which just the bank's offerings and selected fintech-based solutions are available to the corporate clients.
Hence, in this scenario, the bank becomes a "tech company with a banking license". The Digital Loner scenario follows the 'freemium' pattern, which hasan attractive value proposition in providing basic services for free and premium services for a fee [Osterwalder/Pigneur 2010]. After opening an account on the bank's portal, the client can freely access basic functions such as viewing cash balan- ces, transaction history and applying for financial products for instance. Despite such services are provided free of charge, they are still important for the business model as they might attract funds that can be leveraged by the bank in its operations. The benefits from any special and customized feature are excluded though. Such offerings are provided under the provision of a fee or commission in a premium model.

The fee can be either product-based or all-inclusive. Premium users do not only benefit from fast and stream-lined approval processes, as free users do, butalso from a wide range of added-value services andtools. Examples are: dynamic and specialized algo- rithms for cashflow modelling, management of their scheduled repayments and calculation of the amount they need to borrow in just a few clicks,tailored and realtime offers, thanks to advanced analytics, and a smart database that links transac tion histories to debt capacity, dedicated relation-ship managers online or in person. The Digital Loner can afford the freemium pattern because, besides the commissions and interests it charges for each financial contract, it earns from the subscription fees premium users pay.

Figure: Business ModelCanvas for Digital Loners

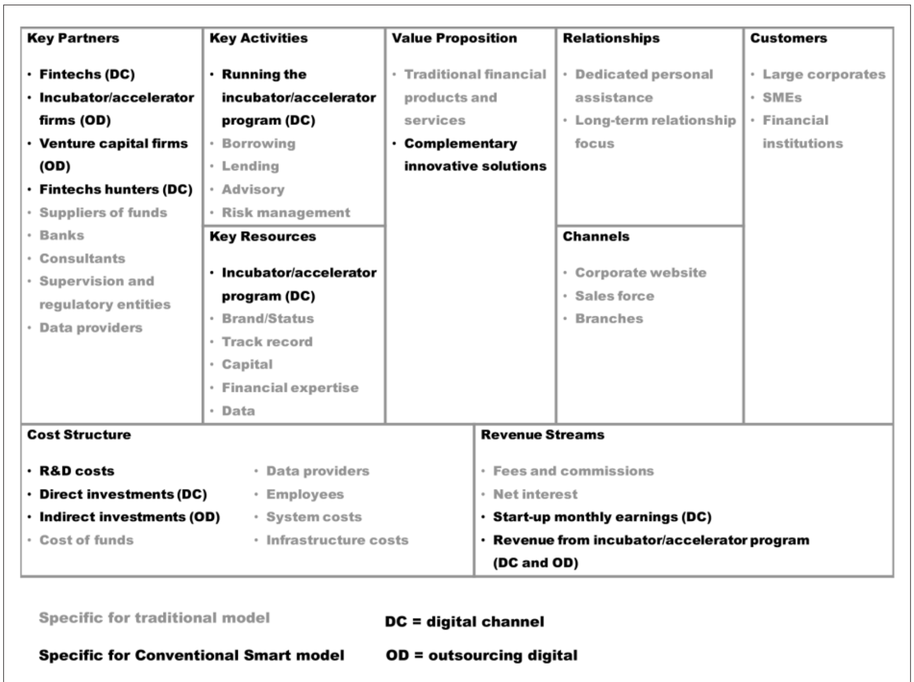


The cost structure though includes the costs of service for free and premium clients that should be covered by the premium fees. In addition, there are costs for R&D and software developers in order to constantly update the software and algorithms behind the platform (which is one of the key ac-tivities). The bank does not employ data providers anymore since all data is delivered by each client, or directly gathered via the use of data analytics. As in the traditional model, the cost of funds still applies. Regarding the channels, branches have to be consi-dered in this business model. Branches still play an essential role in maintaining the relationship with customers, even if the bank‘s business becomes fully virtual through its platform [Greenwich Associates 2016]. Whether the bank has one, several or even many branches around the world, they are used as technology quarters, and as front- and back-office spaces. Figure 3 summarizes the BMC of the DigitalLoner including the freemium pattern.

Scenario 3: Conventional Smart

The third scenario (see Figure 1, top left) is cha-racterized by a high level of cooperation and basicdigital capabilities. The core idea of business models in this scenario is a corporate bank that collabo-rates with fintechs by running a separate digital channel, an innovation arm not integrated into its established organizational structure, designed to invest in fintechs, their growth and further develop- ment. To apply such a model, the bank can directly or indirectly invest in fintechs. Direct investments include a large spectrum – from the implementation of a fintech incubator or accelerator program as a separate initiative for innovation to buying stakes in fintechs that are meant to remain independent. Indirect investments refer to outsourcing the inno vation division to independent incubator or accel- erator companies.

Figure4: Business Model Canvas for Con-ventional Smart



Incubators focus on developing very young start- ups that have an MVP (minimum viable product)or idea, help them build sound foundations, which they can grow upon, support them with setting-up a team and testing the market, and, all that, in exchange for a fee or equity. Accelerator programs fund early-stage start-ups that have already proven to have a long-term growth potential. They mostly operate on short and intense timeframes. Thanks to an initial small seed investment and experienced mentors, usually made of start-up executives and external investors, against a small portion of equi-ty, the business sees itself becoming at best more mature, after completion of the accelerator pro- gram [Forrest 2014].

Here, the corporate bank is based on a traditio-nal model with an additional element – a separate digital unit with a strategic positioning in the field of B2B fintechs. Whether the unit is an owned or outsourced incubator and accelerator, or both, it still offers significant benefits by making the bank playing in the fintech field without to necessarily integrate their functionalities in the existing bank offerings [Pacifico 2016]. This approach en-ables corporate banks to keep track of the devel-opment in the B2B fintech environment, by testing eachinnovation's utility on the field and observing the different market reactions.

To be successful, the bank should employ people who have an 'agile mindset' and who promote a culture of innovation. At the same time, the incu- bator/accelerator programs directly or indirectly supported by banks provide fintechs with potential assets for their development such as an established customer base and vast distribution opportunities. In addition, being backed by a renowned bank grants fintechs more credibility vis-à-vis their cus- tomers and a head start over their competitors [Hol- loman 2015]. This represents a good scenario for start-ups who are confronted to many challenges from scarce financial and human resources, season- al sales cycles to unsecured intellectual property [Butcher 2017].
Yet, what is the value proposition for the bank's corporate clients? Apart from the traditional prod- ucts and services the bank offers, learning to come close to customer centricity is an important part in this scenario. As a result, when the bank cannot fully satisfy a client, it can search for a solution via its own incubator/accelerator unit and its 'fintech hunters'. In the following, owning an incubator or accelerator unit is called a "digital channel" (DC) whereas outsourcing incubator/accelerator acti- vities to other firms is called "outsourcing digital" (OD).

When the bank finds the appropriate product, it redirects the customer towards the respective fin- tech. The client thus remains satisfied because its bank was of help. The bank becomes therefore a privileged partner and reference point in the daily business of the corporate client. Moreover, rela- tionship managers' role is magnified in this model since they are the ones who are able to identifytheir clients' needs and initiate the hunt for a more innovative product. As in banking tradition, face-to- face interactions and long-term relationships with corporate clients are prioritized.

As shown in its BMC (see Figure 4), the Conven- tional Smart bank earns money depending on itsinnovation strategy. If it owns an incubator/acce- lerator unit or is directly invested in fintechs, it can benefit from the sale of successful products on the market and from spinning-off its start-ups. If the unit is outsourced instead, the bank can increase its efficiency by achieving a comparable goal, but with less resources as the management of the unit is owned by external professionals. Thus, two invest- ment strategies are identified for building a digital unit that is not integrated into the traditional sys- tems of the corporate bank. The choice of either approach depends on the bank's goals and plansfor digitalization. But its perception of the fintech sector and disruptive threats as well as the available resources to carry out such investments, should be considered. The main focus of this business modelis that it is not about maximizing profitability but rather having a foot in the fintech and innovation field without being too focused on it, which appears as a smart approach for a traditional bank.

Scenario 4: Digital Banking Ecosystem With a high level of cooperation, resources and dynamic in the course of digitalization, business models of corporate banks in this scenario (see Figure 1, top right) open to many partners and tran-sition to the form of a platform for an ecosystem.The Digital Banking Ecosystem platform looks like a digital financial superstore or an app store where clients can choose among a broad range of finan-cial products and services. For example, FidorBank,through its digital marketplace Financebay, offers a broad spectrum of financial services from both fintechs and other partners.

Under this model, banks become virtual aggrega- tors and distributors of financial services and prod-ucts [Skinner 2016]. That is, they take the role of intermediaries between clients and other financialservices players so that, besides their own products, they can provide customers with a wider range of solutions, which they source from external partners.

Moreover, the ecosystem configuration allows banks to reduce the cost of manufacturing theirown products. Banks implement an efficient data collection and CRM system with which they can advise customers on their needs at the right time with the right product. Banks operate via an open platform that enhances seamless online banking, enhanced digital advice and real-time digital sup- port [Dany et al., 2015]. Customers benefit from faster and streamlined processes, customized products and pricings, high reliance on analytics and transactional data and obtain instant offers. Additionally, in its activity of an aggregator, the bank's value network focalizes more on customer processes through tailored outputs [Winter 2003]. However, having an open platform and providing customers with such advanced solutions would be difficult without data and without sharing it with third parties. Beside it, the IT infrastructure must not be ignored. Banks need to be equipped withsuitable application programming interfaces (APIs) and flexible IT architectures that allow other par- ties' products to be plugged in, while preserving the security of the whole network.

Built on the basis of the traditional corporate ban-king BMC, the ecosystem bank is endowed with important additional elements (see Figure 5). The key partners integrate other financial services provi- ders, which may include other financial institutions or technology firms like fintechs for instance. The bank gets rid of data providers, since data is auto- matically given by the clients. The value proposition reflects the wide product offering of the ecosystem. Both the ecosystem bank and its partners provide financial product and services to the clients.

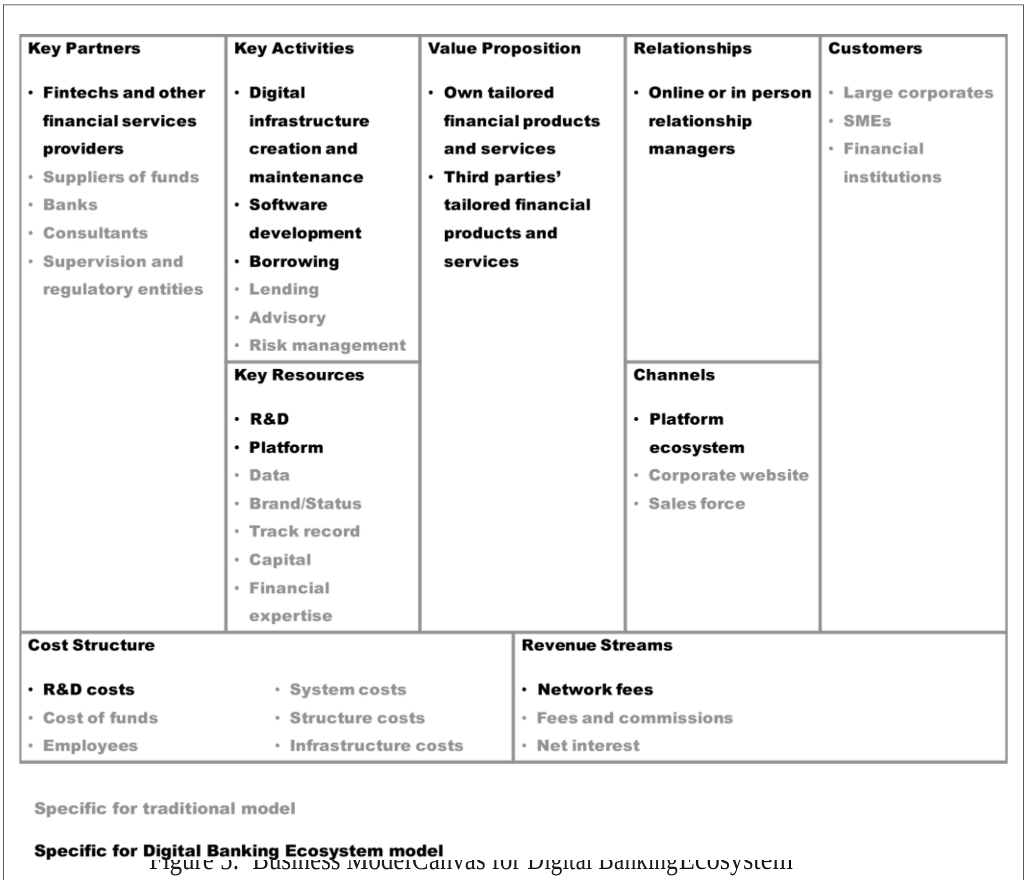


Figure 5: Business ModelCanvas for Digital BankingEcosystem

This framework allows the bank to charge a fee oneach product contracted by the clients, and, thus, togenerate revenue streams from network fees. The main channel is the ecosystem platform and the expenditures to implement it come from IT and R&D. Both departments include the involvement of the fintechs in partnership with the bank and represent a key resource in the development and maintenance activities of the platform

Evaluation and Discussion

In the traditional model, partnerships are few because the bank does not have an appropriate cor-porate culture to enable such relationships. Enga- ging in partnerships with fintechs actually demands a high level of flexibility, especially in terms of pro- cesses and compliance requirements. Without the right mindset, banks are left behind and do not succeed in making new partners. An example of a traditional bank that succeeded in changing its culture and mindset is ING Bank. Today, the Dutch bank collaborates with approximately 100 fintechs,invests in 10 and develops internal ones, e.g. Yolt [Kocianski 2017] thanks to implementing the Agile Way of Working approach, the Innovation Boot- camp, and the PACE methodology. Furthermore, ING's commitment toward increasing its platform capabilities has been proved by the recent acqui- sition of Lendico, a German fintech focussing on corporate lending for SMEs, made via its subsidiaryING-DiBa. Nevertheless, while the majority of banks struggle to dispose of their legacy systems, disrup-tors are a step ahead.

With time, there will be a natural selection hap- pening in the financial industry and banks opera- ting under traditional systems will be eliminated, which recalls the creative destruction concept of Schumpeter [1942]. Instead, these traditional banks should rationalize their value propositions in orderto remain relevant, focusing on their strengths and on highly strategic areas where they mastercompetitive advantages [Brereton et al. 2014]. All in all, this scenario can be considered as the most dangerous one going forward. A bank might fail in responding to changes simply because it is not equipped adequately. Fintechs will at some point surpass traditional banking by offering better custo- mer service and attractive products at a lower price [Skinner 2016], and the main reason for that is the loss of control on innovations, as a result of cultural obstacles and legacy system.

For what concerns the Digital Loner, the freemium model appears as a rather easy way to get fast and trouble-free funding for free users, while still being advantageous for premium users. This busi- ness model is very customer-oriented. Through mul- tiple modalities and ways of earning more money, the Digital Loner model is built around the client'sneeds, and this is what makes it advantageous.

The Conventional Smart model is built on a strategy that seems already well used in the sector. Many lar- ge banks adopt this approach nowadays: as Santan-der, for example, through its InnoVentures incubator fund; Commerzbank and its CommerzVentures and Main Incubator as well as Deutsche Bank and its Innovation Lab. However, adopting this strategy is not an easy process, since there are regulatory and security constraints that make innovating more difficult [Holloman 2015]. Incubators and accel- erators, as independent companies or as a bank's digital arm, tend to have very low start-up admis- sion rates in their programs and require expensive start-up's equity (if seen in perspective), notably because of the high investment risk. To sum up, the Conventional Smart bank demonstrates a willing- ness from banks to innovate although it does not immediately integrate the digital investments in its systems.

The Digital Banking Ecosystem is undoubtedly the most technologically advanced business model of all. It is more than just having an open API plat-form – it is about managing an extensive network of partners and a considerable volume of data. Chal- lenges are of technological order and are based on the smart interplay between automation, self- learning algorithms and cognitive systems [Dapp 2015]. Consequently, running an ecosystem setup is very demanding also in terms of maintenance and upgrading. The software and intelligence behind it must be capable to cope with millions of transac- tions [Finextra Research 2015]. Furthermore, the platform would need to be resilient to cyberattacks that could jeopardize the existence of the ecosys- tem itself. IT becomes thus a driver of business instead of a mere supporting function.

Overall, banks have to get accustomed with open APIs. As a matter of fact, the new Payment Service Directive (PSD2) will soon become a game chan-ger in the financial services industry; not only itobliges banks to put more efforts in data gover- nance but also, it deprives them from using data as leverage over third parties. Exposing their data to competitors will enable other players to take away clients, do business with them, gain their trust and earn money from them [Finextra Research 2015]. Nevertheless, only few banks have since long been preparing for it such as Starling Bank, which is the first UK licensed bank to launch a public API that is ready for PSD2. Another threat faced by banks with PSD2 is an amplified exposition to systems failures,cybercrime and data mishandling. Implementing new security procedures and opening APIs will un- doubtedly increase IT costs [Holm/Hellström 2016]. With developed digital capabilities and a high level of cooperation, this model represents how mostprofessionals in the financial services industry ima-gine the future shape of banks. The Digital BankingEcosystem is a futuristic form of corporate banking that is likely to happen. By the time it does, banks will have to overcome technological threats, rein- force cybersecurity and cope with higher IT expenses.

Conclusion

From pursuing the same goals to complementing their internal resources, companies collaborate and form alliances in order to maintain or gain a com- petitive advantage in the market. However, corpo-rate banks are pressured by a number of legal and compliance rules that do not make the task so easy to achieve, as they need to carry out more advanced operational processes, overhaul their information systems and implement new strategies. Banks facethe so-called Innovation Paradox [Holm/Hellström 2016]. On one side, they are required to take less risks while, one the other, they are expected toinnovate.

This research suggests that, although cooperation is highly beneficial to corporate banks and fintechs, it is not a straight forward strategy. Banks should catch up on innovation and get up to speed withfintechs if they want to survive in the near future.This can only be achieved by adopting customer-centric business models, transforming the corporate culture and mindsets, as well as simplifying legacy systems.

Following the design science methodology helped to create four scenarios based on two dimensions –the level of cooperation with fintechs and the digital capabilities of a bank – which illustrate the kind of business models that can be adopted by corporate banks to cope with the environment. As such, this research provides a further perspective on the topic, since so far, academia

and practice as well have mostly focused on the retail segment. The
four business models are abstract concepts, which would need to be applied and tested against the banking regulatory outlook or financial resource management.

References

Benzin, J.-V. / Moormann, J. (2016). Business Model Innovation: Can established financial service pro- viders utilize concepts of start-up companies?, in: Economy & Business, vol. 16, pp. 64-76.

Brereton, C. / Kennedy, M. / Spratt, P. / Hewer, J.(2014). The future shape of banking. Time for re- formation of banking and banks? PwC, https:// www.pwc.com/im/en/publications/assets/pwc-the- future-shape-of-banking-v4.pdf.

Butcher, D. (2017). 12 top U.S. fintech incubators and accelerators you need to know about. http:// news.efinancialcareers.com/us-en/240091/fintech- incubators-accelerators. Accessed August 2017.

Daft, R. L. (2013). Understanding the Theory & Design of Organizations. 11th ed. Boston, MA.

Dany, O. et al. (2015). Digital in Corporate Banking Reaches the Tipping Point. Is Everyone Ready? TheBoston Consulting Group, BCG Perspectives.

Dany, O. et al. (2016). Fintechs may be CorporateBanks‘ Best „Frenemies“. The Boston Consulting Group, BCG Perspectives.

Dapp, T. F. (2015). Fintech reloaded – Traditional banks as digital ecosystems. With proven walled garden strategies into the future, Deutsche Bank Research. Frankfurt a.M.

Dombret, A. (2016). Banks‘ business models as survival strategies for difficult times. Speech delivered at the Bavarian Financial Summit, Munich, https://www.bundesbank.de/Redak- tion/EN/Reden/2016/2016_10_24_dombret. html#doc381406bodyText3. Accessed May 2017.

Finextra Research (2015). Preparing for PSD2: Ex- ploring the Business and Technology Implications of the New Payment Services Directive. White paper. London.
Peffers, K. / Tuunanen, T. /Rothenberger, M.A./Chat-terjee, S. (2008). The Design Science Research Pro- cess: A Model for Producing and Presenting Informa-tion Systems Research. In: Journal of Management Information Systems, Vol. 24, No.3, pp. 45-78.

Schumpeter, J.A. (1942). Capitalism, socialism and democracy. New York / London.

Skinner, C. (2016). Four banking business models for the digital age. https://thefinanser.com/2016/10/ four-banking-business-models-digital-age.html/. Accessed August 2017.

van Aken, J. E. (2004). Management Research on the Basis of the Design Paradigm: the Quest for Field-tested and Grounded Technological Rules. In: Journal of Management Studies, Vol. 41, No. 2, pp. 219-246.

Winter, R. (2003). Conceptual Modeling of BusinessNetworks and Business Strategies. Proceedings of the 16th Bled Electronic Commerce Conference. Bled, Slowenia.

***

5

Five dimensions of business model innovation: A multi-case exploration of industrial incumbent firm's business model transformations

Anindita Das

A B S T R A C T
Studies focus on the process of business model innovation as performed by start-up firms, while incumbent in- dustrial firms' attempts to innovate their business models often fail, being hindered by path-dependency. There is a lack of understanding of what in a business model of such firms is modified to produce an innovation that gives
rise to value creation. Based on explorations of twenty-two incumbent industrial firms, five dimensions of a business model are identified that, when modified, may result in business model innovation by incumbents. These dimensions are exchangeable, activity, actor, transaction mechanism, and governance setup. The results show how business model innovation can be systemically characterized in terms of several dimensions that must be modified in concert to produce an innovative business model. The results also show that such business model innovations require novel uses of digital technologies that enable new activities to be incorporated into existing business models.

Introduction

The century-old industrial firm Klöckner & Co. is a large producer and independent distributor of steel and metal goods and services. One day, it dared to reinvent its future. Its business model innovation repo-sitioned the firm to capture new value and establish a unique position within its business network. Rather than becoming disintermediated by digital platforms linking steel and metal producers directly with their customers, Klöckner & Co. established two of its own platforms: one for its own services only and another provider-independent platform that links customers with providers. Klockner & Co. not only achieved new revenues, surpassing its industry peers, but also more importantly positioned itself for the future by tackling the challenges related to the
industry's overcapacity and high fixed costs in a volatile market (Hasler, Schallmo, Hackl, & Lang, 2020; Kortov & Sack, 2019).

The success rate for business model innovation among industrial incumbent firms is unfortunately very low (Aspara, Lamberg, Laukia, & Tikkanen, 2013; Haftor, Climent, & Lundström, 2021; Naor, Druehl, & Bernardes, 2018; Santos, Spector, & Van der Heyden, 2009). For example, one study shows that two-thirds of incumbent firms that attempt such innovation fail (Markides & Oyon, 2010), whereas another study shows that only 5 % succeed with the innovation of their business model (Nebuloni, Hernandez, & Carter, 2019). Nonetheless, business model innovation is on the agenda of many executives, who regard it as a key source of firm performance, comparable with product innovation and operational optimization (Sohl, Vroom, & Fitza, 2020; Zott, Amit, & Massa, 2011).

The emerging consensus is that a business model is the "architecture of the value creation, delivery, and capture mechanism" (Teece, 2010:
172). Under such a consensus, the majority of business model innovation research focuses on technology-based start-ups (Bouncken, Kraus, & Martinez-Perez, 2020; Bogers, Hadar, & Bilberg, 2016; Zott & Amit, 2007) and the processes needed for business model innovation (Andreini, Bettinelli, Foss, & Mismetti, 2021). In contrast, research has paid much less attention to the innovation of existing business models of large incumbent industrial firms (Andreini et al., 2021). Unlike start- ups, incumbents manifest an inertia that creates path dependence, hin-dering certain innovation decisions and actions (Goumagias, Fernandes, Nucciarelli, & Li, 2022). Inertia creates a stickiness that keeps the various parts of a firm's business model in their existing positions (Zuzul, & Tripsas, 2020). Therefore, attempts to re-design an existing
business model by altering one component at a time will most likely fail. This insight is further supported by research suggesting that business model innovation requires a comprehensive, holistic approach that fo- cuses on each of its parts in concert (Zott & Amit, 2010). To change a business model using a holistic approach, it is crucial to know which) aspects, or parts, of the model must be altered in concert.

Ms. Anindita Das is Asst. Prof. Srusti Academy of Management, Bhubaneswawr

A key empirical question is therefore the following: Which aspects of a busi- ness model are altered when an industrial incumbent firm implements business model innovation to create and capture value? The aforemen- tioned "aspects" of a business model refer to characteristics, parts, or compositions of elements. The objective of this study is to answer this question

By exploring 22 cases of successful business model innovation by incumbent industrial firms, the study reveals five dimensions of business model innovation. In other words, an alteration of the dimensions of a business model produces a new business model. These dimensions are exchangeables, activities, actors, transaction mechanisms, and gover- nance setup. The results build on previous research by extending the number of dimensions and clarifying their content. These five di- mensions provide guidance for developing a detailed understanding of what is modified in business model innovation and inform managers' re- design of business models. The results also show that any innovation of an existing business model requires modification of multiple dimensions in concert, which shows the systemic nature of the business model. Moreover, successful business model innovations are facilitated by firms' novel uses of digital technologies. In turn, these novel uses of digital technologies enable the inclusion of new activities in the business model to create and appropriate value. The next section reviews the existing theory on business models and business model innovation. The knowledge gap targeted by this study is thus highlighted. Research methods are then detailed, followed by the results. The paper ends with a discussion of the results and the key conclusions in answer to this research question. Contributions to theory and managerial practices are discussed, as well as the limitations of the study and suggestions for further research.

Theory

Given the focus of this study, this section first defines the notion and underlying arguments of a business model. This review highlights the need for firms, both firms in general terms and incumbent industrial firms, to pursue innovation of their business models. This discussion highlights the knowledge gap targeted by the present study.

1.1. From firms to business models

The notion of a *business model* became popular among practitioners and then scholars around the turn of the millennium (Massa, Tucci, & Afuah, 2017). This interest was seemingly driven by several interacting forces, namely the adoption of powerful digital technologies, particu- larly the Internet, the de-regulation of numerous industries, the regu- latory harmonization of markets (Climent & Haftor, 2021; Teece, 2010), and the inability of orthodox management and economic theories to account for the unparalleled pace and magnitude of value creation by some technology firms (Amit & Zott, 2001; Massa et al., 2017; Parker, Van Alstyne, & Choudary, 2016). Thus, the business model accounted for a new kind of business reality: the globalized technology-based firm. Research on the business model has reached a consensus (Wirtz, Pistoia, Ullrich, & Göttel, 2016; Zott et al., 2011) in that a business model is the "architecture of the value creation, delivery, and capture mechanism" (Teece, 2010: 172). This architecture is operated by a system of interrelated activities to exploit market opportunities (Amit & Zott, 2001). A firm can operate one or more business models, which can be altered over time (Casadesus-Masanell, & Tarziján, 2012; Kim, & Min, 2015).

Compared to the orthodox notion of a firm as a source of value creation and appropriation, either as a value chain in an industry (Porter, 1985) or as a bundle of strategic resources (Barney, 1991), the business model offers several key conceptual advancements to explain how value is created and appropriated by a firm. One advancement is the idea that a business model is a firm boundary-spanning activity system including actors and their activities outside the focal firm to account for value creation and appropriation (Amit & Zott, 2001; Zott et al., 2011). Such actors are typically key stakeholders, including cus- tomers, forwarders, partners, suppliers, employees, and owners (Best, Miller, McAdam, & Maalaoui, 2022). From a business model view, value creation and appropriation do not occur only inside the focal firm as they do under the orthodox notion of the firm (Barney, 1991; Porter, 1985). Instead, value creation and appropriation take place within the network of activities and actors that constitute the business model (Zott & Amit, 2010). A second advancement, closely linked to the former, is that value creation and appropriation are not purely centered on the focal firm and its customers. Instead, value creation and appropriation concern all actors involved in the execution of the business model. In this sense, a business model view requires articulation of the value creation and appropriation of each actor that partakes in the business model (Amit & Zott, 2001; Zott & Amit, 2010). A third key advancement is the shift from the idea that value is created only on a firm's supply side to the understanding that value can be created on both the firm's supply and demand sides (Adner, & Levinthal, 2001; Massa et al., 2017; Teece, 2010), which accounts for network externalities or effects (Katz & Shapiro, 1985; Economides, 1996; Amit & Zott, 2001). All these ad- vancements make a firm's business model of crucial importance, namely because of its ability to explain a degree of variation in firm performance (Amit & Zott, 2001; Sohl et al., 2020; Zott & Amit, 2007) and other well- established performance driving factors such as product-specific, firm- specific, industry-specific, and country-specific factors (Hawawini, Subramanian, & Verdin, 2003; McGahan & Porter, 2002; Porter, 1985; Rumelt, 1991; Sohl et al., 2020). Nowadays, two firms that provide similar products in the same market and service the same customer segments can adopt two different business models, with one firm per- forming significantly better than the other (Sohl et al., 2020). One example is given by the two fast-fashion giants H&M and Zara, where the latter outperforms the former (Lanzolla & Markides, 2021).

To achieve superior performance, a firm builds its business model using one or more *business model themes*. A specific business model configuration is then tuned toward one of four available value creation and appropriation architectures (Amit & Zott, 2001; Zott & Amit, 2008; Kulins, Leonardy, & Weber, 2016; Leppänen, George, & Alexy, 2021; Luo, Cao, Tjahjono, & Adegbile, 2022). These four business model themes are novelty, efficiency, complementarity, and lock-in (Amit & Zott, 2001; Leppänen et al., 2021). Amit and Zott (2001) explain these four themes in their ground-breaking research. The *novelty-centered* business model theme refers to a new way of conducting business in terms of the activities and actors that constitute the business model, such as when eBay disrupted the auctions market. The *efficiency-centered* business model theme refers to conducting business in a manner that uses fewer resources than alternative business models in the market- place, such as in the case of various e-commence businesses that offer otherwise similar products to those provided by brick-and-mortar re- tailers. The *complementarity* business model theme refers to bundling various offerings, activities, or resources to generate synergies, such as in the case of Amazon. The *lock-in* business model theme is about discouraging actors in a given business model (e.g., customers, sup- pliers, and owners) from migrating to an alternative for reasons of sunk costs, loyalty relations, or network externalities, such as in the case of Facebook. Empirically, firms that pursue a certain business model theme (e.g., efficiency) or a combination of two or three themes (e.g., novelty and lock-in) can outperform competitors (Zott & Amit, 2007; Kulins, Leonardy, & Weber, 2016; Leppänen et al., 2021). A key managerial question therefore arises: Which aspects of a business model are altered when an industrial incumbent firm implements business model inno- vation to create and capture value? The architecture of an existing business model is transformed into a modified business model archi- tecture, which activates one or more of the four business model themes. This question raises the need to review business model innovation.

1.2. *Business model innovation*

Changing an existing business model through innovation is pivotal for a firm's success (Anzenbacher, & Wagner, 2020; Cucculelli & Bet- tinelli, 2015; Foss & Saebi, 2017). Recent research (Foss & Saebi, 2017; Snihur & Zott, 2020) reveals a consensus that business model innovation is "a set of deliberate acts that managers and entrepreneurs perform over time to change the BM [Business Model] components and architecture in a consistent and innovative way" (Andreini et al., 2021). Hence, busi- ness model innovation research can be regarded in terms of the process and content of innovation, with such innovation pursued by incumbents and start-ups or new market entrants.

The business model innovation *process* has received considerable attention (Andreini et al., 2021; Visnjic, Jovanovic, & Raisch, 2021). This process accounts for the antecedents, moderators, and outcomes of business model innovation (Foss & Saebi, 2017). The literature identifies several kinds of processes that drive business model innovation, including cognitive processes (Roessler, Velamuri, & Schneckenberg, 2019), strategic processes (Broekhuizen, Bakker, & Postma, 2018), value creation processes (Zott, & Amit, 2007), and knowledge-shaping processes (Malhotra, 2002). These processes interact with each other to generate business model innovation (Andreini et al., 2021).

However, the present study focuses on the *content* of business model innovation. This study centers on *what can be changed in a given business model* to produce an innovative business model (Ammar, & Chereau, 2018; Giesen, Berman, Bell, & Blitz, 2007). The literature offers two insights in this regard. The first is a list of the business model compo- nents that must be altered to achieve business model innovation. These components include target markets, target customers, value proposition, value chain, technology, and means of value capture (Broekhuizen et al., 2018; Malhotra, 2002). Although this list reflects the complexity of business model innovation, it is somewhat self-evident and hence of limited value. The second insight provided by research on the content of business model innovation is that it is the architecture of the business model that must be altered and not only its components. Business model architecture refers to the components of the business model and their relations across various business model *dimensions* (Foss & Saebi, 2017). This insight further reveals the complexity of business model innovation in terms of relations between components instead of just the components themselves. The limited research on business model dimensions suggests that a business model may be regarded in terms of its content, structure, and governance. Content refers to activities, structure refers to organi- zational units, and governance refers to control of organizational units (Saebi, & Foss, 2015; Zott & Amit, 2010). However, there is a lack of research on what must be altered through business model innovation to activate one or more business model themes (Zott et al., 2011). Nearly all business model innovation research focuses only on the novelty theme (Massa et al., 2017). This focus is understandable because novelty is assumed to be intrinsic to business model innovation. However, research shows that the other three business model themes (efficiency, complementarity, and lock-in) can also constitute sources of business model innovation (Zott & Amit, 2007). In fact, recently, the novelty theme in isolation has seldom been a source of business model innova- tion that leads to superior firm performance (Leppänen et al., 2021). Hence, there is a need for research on the dimensions of business model content that give rise to the activation of business model themes. This study addresses this research gap.

Empirically, much of this content-perspective research on business model innovation reports findings related to the business model in- novations of start-ups and new entrants (Konya-Baumbach, Schuh- macher, Kuester, & Kuharev, 2019). Such innovation is often enabled by their novel use of digital technologies (Caputo, Pizzi, Pellegrini, & Dabić, 2021). In contrast, there is limited research on industrial incumbent firms' business model innovation, so this issue is the core focus of this study (Habtay, & Holmén, 2014; Kim, & Min, 2015).

Research shows that business model innovation may reposition industrial incumbent firms within a value network to appropriate new sources of value (Hacklin, Björkdahl, & Wallin, 2018; Haftor, & Climent, 2021). However, studies also suggest that many of industrial in- cumbents' attempted business model innovations fail (Markides, & Oyon, 2010; Naor et al., 2018; Santos et al., 2009) because of com- plexities caused by path dependence and inertia (Goumagias et al., 2022). The idea is that if an incumbent firm attempts to change one part of its business model, other parts may stick and thereby hinder the innovation of the whole business model (Visnjic et al., 2021). Therefore, a key question tackled by this study is as follows: Which aspects of a business model are altered when an industrial incumbent firm imple- ments business model innovation to create and capture value? Implic- itly, answering this question also requires knowledge from the firm renewal literature (Shu, De Clercq, Zhou, & Liu, 2019). The objective of this study is therefore to provide novel answers to this question.

Methods

This study pursues an exploratory research approach (Locke, 2011) with an abductive mode of theorizing (Tavory & Timmermans, 2014) to answer the research question. The motivation is the lack of stable theory to account for the phenomenon of the change of content of the business models of incumbent firms. When there is limited theory to account for a phenomenon, it is difficult to deduct reasonable hypotheses (Dubois, & Gadde, 2002). In contrast, an inductive research mode that does not draw on any body of theory ignores relevant theorizations and thereby offers advancement and accumulative knowledge production (Behfar & Okhuysen, 2018). The combination of the inductive and deductive modes of inquiry provides an abductive mode that is both open to inducing new characteristics of a given phenomenon and exploiting existing theorizations that may be relevant during explorations (Tavory & Timmermans, 2014).

Because the present research question involves business model change, the content of the business model *prior* to its change and then its content *after* that change must be identified. The two must then be compared to derive what is being changed. This situation calls for a longitudinal case exploration approach in which a firm's business model before change is distinguished from its business model after change (Eisenhardt & Graeber, 2007; Eisenhardt, Graeber & Sonenhein, 2016).

1.1. *Empirical setting*

This study investigates 22 industrial incumbent firms. The selection of these firms was theory-motivated to match the characteristics of the studied firms with the theoretical gap targeted by the study and thereby answer the research question. The following criteria governed the se- lection of the investigated firms. All firms were large, industrial, and well-established incumbents operating in mature sectors. These firms were global corporations, typically comprising multiple strategic busi- ness units, where each such unit operated with its product line in diverse markets and used a distinct business model. This study focused on a distinct business unit within a distinct market for each firm. The selected business units had to have conducted business model innovation. The successful completion of business model innovation of the strategic business unit was the dependent variable. To eliminate key confounding factors, the studied firms did not pursue strategic repositioning in terms of their chosen product market strategies, for example by shifting from cost-leadership to differentiation (Porter, 1985), at the same time as their business model innovation. The choice of firms was also influenced by access to data on these firms. The number of investigated firms was motivated by the theoretical saturation of results (Patton, 1990). Data collection took place between 2014 and 2021. Engagement with each firm lasted for two or more years to ensure each firm's business model prior to and after change was understood. Table 2 lists the firms included in the study.

1.2. Data sources and methods

For each firm, multiple data sources and collection methods were used to gather both qualitative and quantitative data. For each investi- gated strategic business unit and market, several managers were inter- viewed at two or more times, namely prior to and after change of the
unit's business model. In most instances, the same managers were
interviewed before and after change. Additionally, for each firm, three or more customer representatives were interviewed both before and
after the business model was changed. Where relevant, partners of each firm were interviewed, particularly in cases where the focal firm's
business model relied heavily on a partnership. Data were also collected through internal documents provided by the firms.
These documents included business plans, market strategies, product specifications, and sales outcomes. Table 1 summarizes the data sources.
Semi-structured interviews were used. The questions that concerned the focal firm's business model were informed by pre-established mea-surement instruments (Amit & Zott, 2001; Leppänen, et al., 2021).
Several measures were used to ensure data validity and reliability. In- formants were given anonymity to encourage the provision of unin- hibited information. Initial questions were non-directive. Temporal event tracking was used to capture the unfolding of the business model innovation. Finally, multiple sources within the firm and outside were interviewed to triangulate data. In some instances, follow-up inquiries with specific individuals were performed to resolve data conflicts or gaps.

1.3. Data analysis and theory advancement

Collected data were stored using dedicated research database soft- ware (ATLAS.ti). The interviews were audio recorded with participants' consent and transcribed within a day to provide nearly 7,000 pages of
text. The analysis started with the construction of case scenarios for each firm. These case scenarios described the business model with its value creation themes prior to the business model change and the business model with its value creation themes after the business model change. Each scenario was initially constructed by one author only and then validated by the other author. Potential ambiguities were resolved using additional data collection. The focus of analysis was the comparison
between a given firm's business model prior to and after business model
change. Any differences that were identified were coded. Each identified difference was coded a-theoretically to give empirical themes related to the changed business model content. These codes were aggregated into second-order empirical themes to distill the empirical content into conceptual categories of the aspects of business models. This process increased the level of abstraction and potential generalizability. Again, each such coding was conducted by one author and then reviewed by the other author to identify possible ambiguities. These ambiguities were then clarified. Next, these business model content themes were compared back and forth multiple times with the business model theo- rizations presented earlier in the Theory section (Eisenhardt et al., 2016; Klein & Myers, 1999). Finally, this comparison with theory gave rise to further generalizations, producing the five dimensions of business model innovation described in this paper.

Results

Table 2 lists the investigated firms and specifies their respective business model innovation and the business model dimensions used in each such innovation. Fig. 1 illustrates a sample of the data analysis and the process followed to generate the dimensions. The results suggest that any existing business model can be understood in terms of five di- mensions. Such an understanding facilitates the re-design and thereby the innovation of a business model. Hence, altering one or more of the dimensions of an existing business model may generate an alternative business model. The five dimensions of business model innovation identified here are: exchangeables, activities, actors, transaction mech- anisms, and governance. These five dimensions are detailed later.

1.4. *The five business model dimensions*

The first business model dimension refers to the *exchangeables* of a business model. An exchangeable is something (tangible or intangible) generated by an activity to give an output for another activity. The primary exchangeables are products (goods and services) either pro- cured from suppliers in the factor market or provided to customers in the product market. Given that the notion of a business model involves value creation for all actors involved (Amit & Zott, 2001; Brandenburger & Stuart, 1996), the notion of exchangeables also covers examples such as the worktime provided by employees and the compensation they receive, as well as the investors that fund a firm in exchange for a stake in firm ownership. The typical modification of exchangeables concerns the offered product. An example is when machines and services are bundled together, sometimes along with novel digital technologies, thereby enabling the creation of a smart product market system (Chowdhury, Haftor, & Pashkevich, 2018). Other kinds of modified exchangeables include a lower or higher workload in terms of volume of work hours, as well as increased financial capital to operate a new business model with greater capital intensity. Research supports this conception of exchangeable transformation in terms of the notion of bundling, unbundling, and re-bundling (Kopczewski, Sobolewski, & Miernik, 2018). An illustration is given by the unbundling of books into chapters and records into songs. Changing the exchangeables of a business model can activate one or more business model themes. For example, the complementarity business model theme can be activated by a new bundle that is not offered by competitors.
The second dimension relates to the *activities* in a business model. These activities refer to a set of interrelated actions that together give rise to a distinct and coherent activity in a business model. Examples of such activities are procurement, product development, manufacturing, sales, service, and recruitment. An existing business model is by defi- nition made up of a set of interrelated activities (Amit & Zott, 2001; Zott & Amit, 2010). Therefore, the investigated firms implemented business model innovation by changing their business model activities. Examples of how they did so include adding new activities, excluding existing activities, and changing the order of current activities. The investigated firms typically added activities to establish forward or backward inte- gration in their industrial value chain. Examples include retaining ownership of a machine provided to a customer on lease and then adding the activity of operating the machine for the customer.

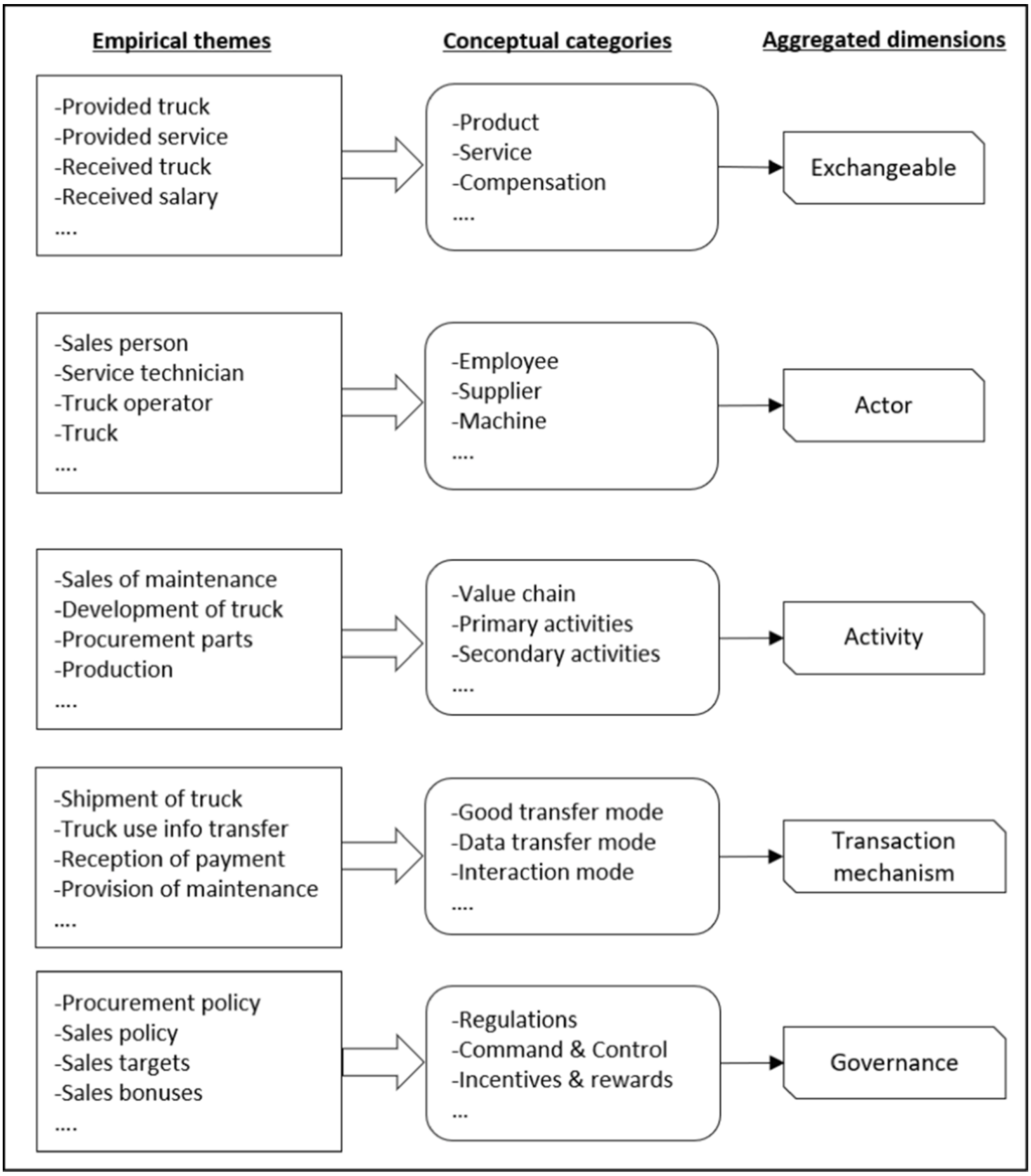


Fig. 1. Sample of data structure and analysis to generalize from empirical themes (left hand), to conceptual categories (middle), to aggregated dimensions (right hand).

specifically, it accounts for the conventional command and control setups, the various institutional (legal, cultural, and industrial) norms, contracts, and trust between actors, actors' interests, incentives, and rewards, and the relations (alignment and lack thereof) between actors' interests. All these factors regulate actors' behavior (Asgari, & Asgari, 2021). One common change in governance setup among the investi- gated firms is the change of legal ownership of a product. Conventional transfer of ownership of a machine from provider to customer is replaced by providers' retention of ownership of a machine and leasing or renting to customers. In such situations, new governance setups are required, operationalized through novel contracts and the use of digital technology for continuous monitoring of machine use. Research con- firms this new approach (Steinbach, Holcomb, Holmes, Devers, & Can- nella, 2017). One example is algorithmic governance of firm-external actors that partake in a business model. A specific application is used by taxi firms to rate drivers and riders and implement dynamic demand-driven pricing (Garud, Kumaraswamy, Roberts, & Xu, 2020).

1.5. *Multi-dimensional alterations of business models*

Although the five dimensions of business model innovation identi- fied in this study have been detailed one by one, for analytical reasons, all firms included in the study altered several dimensions simultaneously in their business model innovation. Hence, the empirical cases suggest that altering one dimension at a time is insufficient for business model innovation. For example, Volvo Construction Equipment, which manu- facturers crawler excavators among other machinery, transformed its business model from the orthodox manufacture and sale of such ma- chines to renting machines to customers with an hourly fee for actual machine use. In terms of the five dimensions, this business model transformation added the novel *activity* of continuous monitoring of machine operations and conditions enabled by IoT devices embedded in the excavators, making such machines a novel *actor* of the business model instead of a passive *exchangeable*. A key *exchangeable* of this business model was therefore also modified because customers received the capability to use the machine whenever they needed it rather than the ownership of that machine. In this change, the manufacturer received a fee depending on usage time and a large set of data on the actual usage of its machines and their condition. The data were used for various ends, such as the calculation of the usage fee and hence value appropriation, as well as machine maintenance and repair and the design of new machines. For this new provider-customer relationship, a new *transaction mechanism* was implemented based on IoT usage. This mechanism enabled the transfer of usage data from the machine at the customer's site to the machine provider. This entire structure was regulated by an updated *governance setup* stipulating the ownership, usage, payments, and other aspects of the provider-customer relation- ship. Hence, there seems to be *complementarity* between the business model dimensions, whereby a fit between these dimensions is needed to create a new business model from an existing business model.

Discussion and conclusions

The notion of a business model has emerged as a valuable way of understanding a firm's ability to create and appropriate value as opposed to the orthodox notions of competition through products and operations (Amit & Zott, 2001, 2010). Studies show that firms with similar offerings but different business models perform differently (Lanzolla, & Markides, 2021). Hence, the business model explains part of performance variation (Sohl et al., 2020). Because competing only through products and operations has become increasingly difficult and because changes in the business environment decrease product differ- entiation (Donthu, & Gustafsson, 2020), business model innovation is on the agenda of many executives (Bock, Opsahl, George, & Gann, 2012). Novel technology-based start-ups use innovative business models to disrupt established industries and create value at an unprecedented pace and magnitude (Parker et al., 2016). Meanwhile, established industrial incumbent firms, which experience inertia and path dependence (Gou- magias et al., 2022), often fail in their attempts at business model innovation (Zuzul, & Tripsas, 2020). The incremental innovation approach typically used by such firms means that one part of an existing business model is modified at a time. However, this approach is hin- dered by the stickiness of other parts of the business model (Favoretto, de Sousa Mendes, Godinho Filho, de Oliveira, & Ganga, 2021), sug- gesting that these other parts must also be targeted in the innovation process. Hence, the following question arises: Which aspects of a busi- ness model are altered when an industrial incumbent firm implements business model innovation to create and capture value?

1.6. Contributions to knowledge advancement

This study offers several contributions to theory development through exploratory analysis of successful business model innovation by 22 industrial firms. The first key contribution is that a business model can be understood in terms of five dimensions: exchangeables, activities, actors, transaction mechanisms, and governance setup. By altering these dimensions in their existing business models, the studied incumbent firms successfully established new business models that enabled the activation of certain business model themes. This primary contribution of the study is important because the limited existing research suggests that a business model can be understood in terms of only three di- mensions, namely content, structure, and governance (Saebi, & Foss, 2015; Zott & Amit, 2010). The five dimensions proposed in this study overlap with the three dimensions from the literature and thereby make progress in terms of knowledge development. The present study shows that business model transaction mechanisms and the governance setup should be considered distinct from the actors and activities of a business model. The firms included in this study show that combining these two categories does not correctly reflect what firms actually modify in their business model innovation. For example, not distinguishing between the governance setup and the actors that perform activities overlooks the fact that the same actor can be governed in different ways. For instance, the same actor may be subject to different incentives and legal contracts. Similarly, the existing research combines the activities of a business model and the way they are linked with each other, whereas the model provided in the present study distinguishes between activities and transaction mechanisms. This distinction is important because two or more activities can be linked with different transaction mechanisms that constitute different sources of value creation.

The second key contribution is the insight that the investigated firms all altered several dimensions of their business model simultaneously rather than modifying one dimension at a time. This finding suggests that business model innovation is systemic, such that the whole is more important than the sum of its parts. This idea echoes the notion of complementarity, where the value of dimension A becomes higher in the presence of dimension B. Although research suggests that business models should be examined from a holistic approach, it does not specify which business model aspects must be considered to activate one or more business model themes for value creation and appropriation (Zott & Amit, 2010). The present study fills this gap by detailing the five business model dimensions and their interactions. The results of this study challenge the assumption that changing one aspect of a business model is enough for business model innovation and that a holistic change will generate business model innovation. Instead, business model innovation must be aimed at the activation of one or more business model themes.

A third insight is that all studied firms adopted digital technology in their business model innovation. Moreover, the use of such technology can be understood in terms of the five dimensions of business model innovation identified here (Frank, Mendes, Ayala, & Ghezzi, 2019; Guo, Guo, & Ma, 2022). Firms update their *exchangeables* by embedding digital technology into their offerings. Firms use technology to automate *activities*, replace human *actors* with machine actors, and use machines to transfer information between activities, thus creating *transaction mechanisms*. All such uses of digital technology enable modifications in the business model *governance setup*.

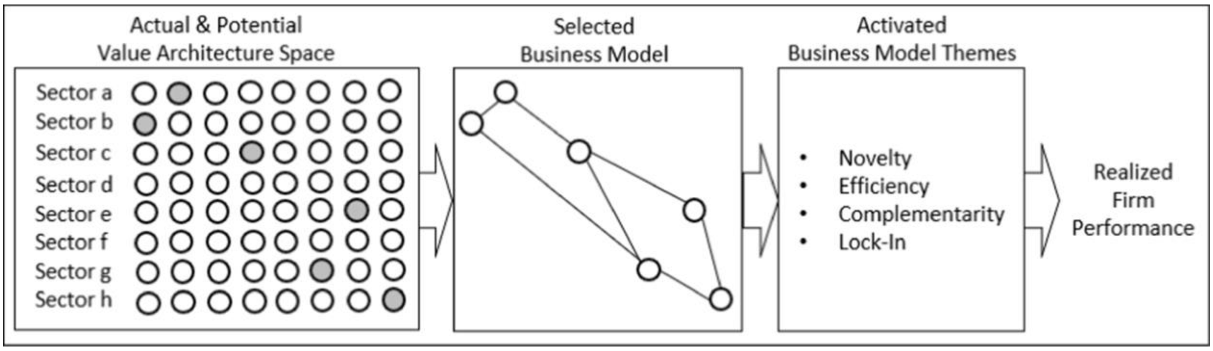
A fourth insight is that several of the studied firms implemented their business model innovation by expanding their activity system for the vertical integration of activities previously conducted by customers and thereby appropriated additional value. For example, a firm that origi- nally provided forklifts for industrial use started retaining ownership of those machines, instead providing the capability of lifting whenever needed by offering the forklift, driver, and services on lease. In sum, the investigated business model innovations combined the five business model dimensions in an attempt to find new sources of value creation typically enabled by the use of digital technology.

1.7. *Managerial implications*

This study's results offer guidance to managers of incumbent firms seeking business model innovation. First, managers should conceive of their firm's business model in terms of the five dimensions detailed in this paper, namely exchangeables, activities, actors, transaction mech-
anisms, and governance setup. Crucially, actors should not be limited to suppliers, producers, or customers. Actors should include all the com- ponents that partake in the realization of a business model, potentially also including owners, employees, forwarders, and other partners. Similarly, activities may take place not only within the firm or con- ventional industrial value chain but also outside these domains, such as in other sectors. The investigated firms show that, when conducting their activities, actors may be governed in different ways and linked through different transaction mechanisms. A change of governance setup, as well as a change of transaction mechanisms, may release novel value. Next, managers should conceive any alterations to these five di- mensions in concert with each other. They should not attempt to alter them one by one in isolation. They should do so while aiming to activate one or more of the four business model themes. A business model seems to depend on the interactions between the five dimensions, which may activate one or more business model themes. Furthermore, such multi-dimensional alterations can be made using digital technologies. A ma- chine can constitute an actor that conducts activities. Technology can then link activities and their actors in a novel configuration, where machines govern the execution of activities through various algorithmic measures and where technology can be part of an exchangeable such as a forklift. Hence, the business model innovation of an incumbent firm can seldom be managed by a single functional manager from sales, mar- keting, manufacturing, finance, or some other area. The five dimensions cover all parts of the focal firm and its environment, so business mode re-design must take place at the top management of the focal firm. Doing so can guarantee a holistic understanding of a firm's business model and
secure the necessary authority for business model re-design, mitigating the risks of sub-optimization. By extension, the findings also suggest that business model innovation of an incumbent firm may require negotia- tions with actors outside the hierarchical executive structure of a focal firm. The findings show the key importance of the dynamic capabilities of a firm in establishing a business model (Teece, 2018; Wang, Fang, & Zhang, 2022). A focal firm may change its business model and may even pursue multiple business models (Casadesus-Masanell, & Tarziján, 2012; Kim, & Min, 2015). Hence, managers need to identify market opportunities and a value architecture space (Keen, & Williams, 2013; Trapp, Kanbach, & Kraus, 2022), which refers to the total space of actual and potential actors and the activities they perform. This space is well beyond a single industry's value chain. One or more business models can
be configured in terms of these five dimensions, with actors linked within an activity system aiming to activate one or more business model themes to achieve superior firm performance (Fig. 2).

Fig. 2. Relationship between actual and potential value architecture space constituted by actual and potential

actors in various sectors or industries. The config- uration of selected actors and their activities constitutes a given business model that activates a business model theme for value creation and in turn leads to superior firm performance



1.8. *Limitations and future research*

First, the results of this study are based on multiple case explorations. Despite theoretical saturation in the data analysis, the results should be confirmed or else refuted in an alternative empirical setting. Second, the empirical data consisted of large industrial incumbent firms, so the re- sults of this study are potentially only applicable to such firms. However, there is nothing to suggest that the five dimensions of business model innovation and their systemic nature would not apply to the business models of other firms. In any case, to confirm this applicability, this study should be replicated in an empirical setting that includes other kinds of firms.
A final consideration is that although this study focuses on the business model dimensions that influence business model themes, which then affect firm performance, the organization and strategy literature shows that there is seldom one solution that fits all contexts (Volberda et al., 2012). Therefore, future research should examine potential con- tingency factors that may be related to the five dimensions of business model innovation and explore the nature of such relationships in their influence on business model themes and firm performance.

Funding

This research has not received any specific grants from public, commercial, or non-profit sector funding bodies.

CRediT authorship contribution statement

Darek. M. Haftor: Writing – original draft, Validation, Methodol- ogy, Formal analysis, Data curation. **Ricardo Climent Costa:** Investi-
gation, Conceptualization.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

References

Adner, R., & Levinthal, D. (2001). Demand heterogeneity and technology evolution: Implications for product and process innovation. *Management Science, 47*(5), 611–628.

Amit, R., & Zott, C. (2001). Value creation in e-business. *Strategic Management Journal, 22* (6–7), 493–520.

Ammar, O., & Chereau, P. (2018). *Business model innovation from the strategic posture perspective: An exploration in manufacturing SMEs*. European Business Review.

Andreini, D., Bettinelli, C., Foss, N. J., & Mismetti, M. (2021). Business model innovation: A review of the process-based literature. *Journal of Management and Governance,* 1–33.

Anzenbacher, A., & Wagner, M. (2020). The role of exploration and exploitation for innovation success: Effects of business models on organizational ambidexterity in the semiconductor industry. *International Entrepreneurship and Management Journal, 16* (2), 571–594.

Asgari, A., & Asgari, R. (2021). How circular economy transforms business models in a transition towards circular ecosystem: The barriers and incentives. *Sustainable Production and Consumption*, *28*, 566–579.

Aspara, J., Lamberg, J. A., Laukia, A., & Tikkanen, H. (2013). Corporate business model transformation and inter-organizational cognition: The case of Nokia. *Long Range Planning*, *46*(6), 459–474.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, *17*(1), 99–120.

Behfar, K., & Okhuysen, G. A. (2018). Perspective—Discovery within validation logic: Deliberately surfacing, complementing, and substituting abductive reasoning in hypothetico-deductive inquiry. *Organization Science*, *29*(2), 323–340.

Best, B., Miller, K., McAdam, R., & Maalaoui, A. (2022). Business model innovation within SPOs: Exploring the antecedents and mechanisms facilitating multi-level value co-creation within a value-network. *Journal of Business Research*, *141*, 475–494.

Bock, A. J., Opsahl, T., George, G., & Gann, D. M. (2012). The effects of culture and structure on strategic flexibility during business model innovation. *Journal of Management Studies*, *49*, 279–305.

Bogers, M., Hadar, R., & Bilberg, A. (2016). Additive manufacturing for consumer-centric business models: Implications for supply chains in consumer goods manufacturing. *Technological Forecasting and Social Change*, *102*, 225–239.

Bouncken, R. B., Kraus, S., & Martinez-Perez, J. F. (2020). Entrepreneurship of an institutional field: the emergence of coworking spaces for digital business models. *International Entrepreneurship and Management Journal*, *16*(4), 1465–1481.

Brandenburger, A. M., & Stuart, H. W., Jr (1996). Value-based business strategy. *Journal of economics & management strategy*, *5*(1), 5–24.

Broekhuizen, T. L., Bakker, T., & Postma, T. J. (2018). Implementing new business models: What challenges lie ahead? *Business Horizons*, *61*(4), 555–566.

Caputo, A., Pizzi, S., Pellegrini, M. M., & Dabić, M. (2021). Digitalization and business models: Where are we going? A science map of the field. *Journal of Business Research*, *123*, 489–501.

Casadesus-Masanell, R., & Tarziján, J. (2012). THE GLOBE-When One Business Model Isn't Enough-Operating more than one business model at a time may seem like a foolish strategy. But LAN Airlines manages three simultaneously—With remarkable success. *Harvard Business Review*, *132*.

Chowdhury, S., Haftor, D., & Pashkevich, N. (2018). Smart product-service systems (Smart PSS) in industrial firms: A literature review. *Procedia Cirp*, *73*, 26–31.

Climent, R. C., & Haftor, D. M. (2021). Business model theory-based prediction of digital technology use: An empirical assessment. *Technological Forecasting and Social Change*, *173*, Article 121174.

Cucculelli, M., & Bettinelli, C. (2015). Business models, intangibles and firm performance: Evidence on corporate entrepreneurship from Italian manufacturing SMEs. *Small Business Economics*, *45*(2), 329–350.

Donthu, N., & Gustafsson, A. (2020). Effects of COVID-19 on business and research. *Journal of Business Research*, *117*, 284–289.

Dubois, A., & Gadde, L. E. (2002). Systematic combining: An abductive approach to case research. *Journal of business research*, *55*(7), 553–560.

Economides, N. (1996). The economics of networks. *International journal of industrial organization*, *14*(6), 673–699.

Eisenhardt, K. M., & Graebner, M. E. (2007). Theory building from cases: Opportunities and challenges. *Academy of management journal*, *50*(1), 25–32.

Eisenhardt, K. M., Graebner, M. E., & Sonenshein, S. (2016). Grand challenges and inductive methods: Rigor without rigor mortis. *Academy of Management Journal*, *59*(4), 1113–1123.

Favoretto, C., de Sousa Mendes, G. H., Godinho Filho, M., de Oliveira, M. G., & Ganga, G. M. D. (2021). Digital transformation of business model in manufacturing companies: Challenges and research agenda. *Journal of Business & Industrial Marketing*.

Foss, N. J., & Saebi, T. (2017). Fifteen years of research on business model innovation: How far have we come, and where should we go? *Journal of management*, *43*(1), 200–227.

Frank, A. G., Mendes, G. H., Ayala, N. F., & Ghezzi, A. (2019). Servitization and Industry 4.0 convergence in the digital transformation of product firms: A business model innovation perspective. *Technological Forecasting and Social Change*, *141*, 341–351.

Garud, R., Kumaraswamy, A., Roberts, A., & Xu, L. (2020). Liminal movement by digital platform-based sharing economy ventures: The case of Uber Technologies. *Strategic Management Journal.*

Giesen, E., Berman, S. J., Bell, R., & Blitz, A. (2007). Three ways to successfully innovate your business model. *Strategy & Leadership*.

Goumagias, N. D., Fernandes, K., Nucciarelli, A., & Li, F. (2022). Business model innovation and path dependency: From archetypes to business models. *Journal of Business Research.*

Guo, H., Guo, A., & Ma, H. (2022). Inside the black box: How business model innovation contributes to digital start-up performance. *Journal of Innovation & Knowledge*, *7*(2), Article 100188.

Habtay, S. R., & Holmén, M. (2014). Incumbents' responses to disruptive business model innovation: The moderating role of technology vs. market-driven innovation. *International Journal of Entrepreneurship and Innovation Management 11*, *18*(4), 289–309.

Hacklin, F., Björkdahl, J., & Wallin, M. W. (2018). Strategies for business model innovation: How firms reel in migrating value. *Long range planning*, *51*(1), 82–110.

Haftor, D. M., & Climent, R. C. (2021). CO_2 reduction through digital transformation in long-haul transportation: Institutional entrepreneurship to unlock product-service system innovation. *Industrial Marketing Management*, *94*, 115–127.

Haftor, D. M., Climent, R. C., & Lundström, J. E. (2021). How machine learning activates data network effects in business models: Theory advancement through an industrial case of promoting ecological sustainability. *Journal of Business Research*, *131*, 196–205.

Hasler, D., Schallmo, D., Hackl, T., & Lang, K. (2020). Understanding digital platforms in B2B: Literature review and case studies. In *ISPIM Conference Proceedings* (pp. 1-16). The International Society for Professional Innovation Management (ISPIM).

Hawawini, G., Subramanian, V., & Verdin, P. (2003). Is performance driven by industry- or firm-specific factors? A new look at the evidence. *Strategic Management Journal*, *24* (1), 1–16.

Jacobides, M. G., Cennamo, C., & Gawer, A. (2018). Towards a theory of ecosystems. *Strategic Management Journal*, *39*(8), 2255–2276.

Katz, M. L., & Shapiro, C. (1985). Network externalities, competition, and compatibility. *The American Economic Review*, *75*(3), 424–440.

***

6

Benefits of Technology for Business

Bijay K.Nanda

Abstract. The purpose of this study is to describe the benefits of technology in a business aspect nowadays. This type of research used descriptive method so that we could analyse the importance of technology in the sector of business. The results show that this research can use technology these days to help young businessmen or businesswomen who want to develop theirability according to the times. The benefit of technology is that now it can support business expansion. Besides doing business by utilising technology is useful because users can also learntechnology at the same time. This can provide convenience for users. The impact from the utilisation of technology for business can also make the users take note to their accuracy that itis easier for them to make decisions. So we can take out the benefit from technology for businessbecause it does not close the possibility of successful business for businessmen and businesswomen.

1. Introduction

The development of the current era where technology becomes a necessity, especially for businessmenstoday because it can promote their products using online methods, it can attract consumers to their online shop. According to Lu et all recommend and provide online services to provide product information in order to improve customer relations [1].

In Thailand has a positive attitude online shopping so that it can affect the intention of online buyers as has been done by thananuraksakul [2]. Everyone uses the internet media for online shopping, like the research there are seven factors that influence Chinese consumers online shopping and have risks, service quality, product variations, and convenience [3]. Making trust for consumers so that consumers are satisfied and provide positive support and provide a safe, friendly online shopping site [4]. Create a market according to needs by giving profits to companies to make the business competition that produces quality products and affordable markets [5]. Technology development is the main foundation of doing business [6]. It can be a success factor for companies that run businesses with current trends [7]. With a broad reach and can be done anytime anywhere and has many advantages that we can feel we can make sales and marketing through cyberspace or business technology that is currently being used. [8].

Companies prefer online businesses and transaction with electronic networks to increase consumer loyalty in online shopping [9]. As well as smooth communication between users and privacy, it is necessary to provide security and safety features [10]. The aim of this study is to find out and describethe benefits of technology for business and the ease of business with technology today because currenttechnology can help businesses. Using this descriptive method to explain the superior product creation and make it easier for consumers and sellers to see our business by generating good reviews from consumers.

2. Method

This research used the descriptive method. Using descriptive methods can identify and introduce businesses using technology and analyse how essential and influential technology is for businesses. By using technology in business, it can be easier for them to be able to promote their products which are connected to websites that technology-based and will display products that are needed in detail from the product, the material and so on which can make it easier for prospective customers to choose and fulfil their needs also make it easier for sellers to not incur large costs. It turns out that there are still many business people who still do not use technology in their business and still consider using technology to be difficult. Therefore we need to introduce business people to using technology not only in offline business.

3. Results and Discussion

In order to attract the attention of technology connoisseurs with business, we need to create a businessthat uses attractive technology by making it easier for prospective sellers to see our business activity and interested in joining us [11]. It is necessary to create a business page that is easy, fast, detailed andprecise on every product. An example is the mobile phone business by offering various types of mobile phones with detailed explanations and can attract the attention of consumers and provide convenience in transactions, namely by using various payment options such as ATM transfers, payments at minimarket and pay at the consumer's place guaranteed security and guaranteed security on delivery.

Dr. Bijaya Kumar Nanda, Asst.Prof, Global Institute of Management, Bhubaneswar

See Figure 1; consumers can order products that they want with technology anywhere and anytime because technology provides convenience, indirectly proven consumers use online technology that is easily accessible on various devices.

Figure 1. Main menu. This figure was adopted from www.shopee.com on November 12, 2018.

See Figure 2, the main menu contains menus and submenu, sellers and buyers can create accounts thatthey can access in the future for business or shopping. Many products offered such as on the left side of this site are product categories on this site. In the top there is a search menu to find products that consumers want and sellers have the advantage of being able to access all the pages on this site, we develop technology and online business satisfaction.

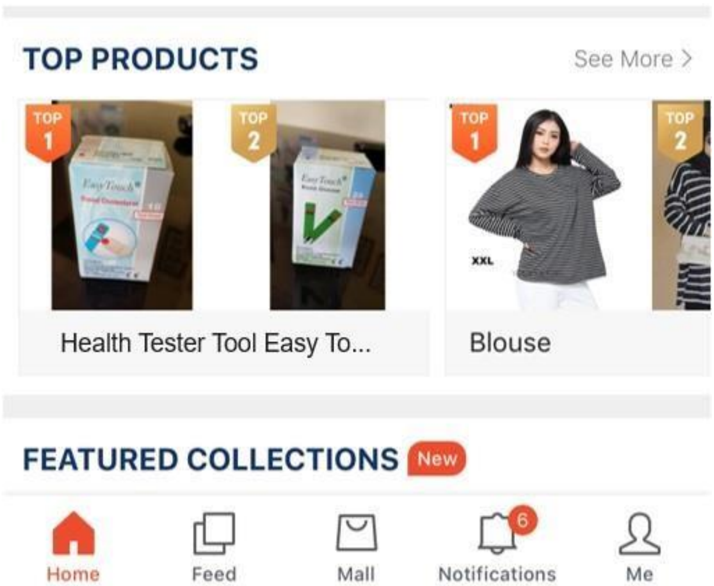


Figure 2. Popular products. This figure was adopted from www.shopee.com on November 12, 2018.

See Figure 3, in this section, consumers can see and know the products that are popular at the time. Shopee provides local and foreign products and products are listed pictures, prices, and other information so it can attract buyers to make transactions then.

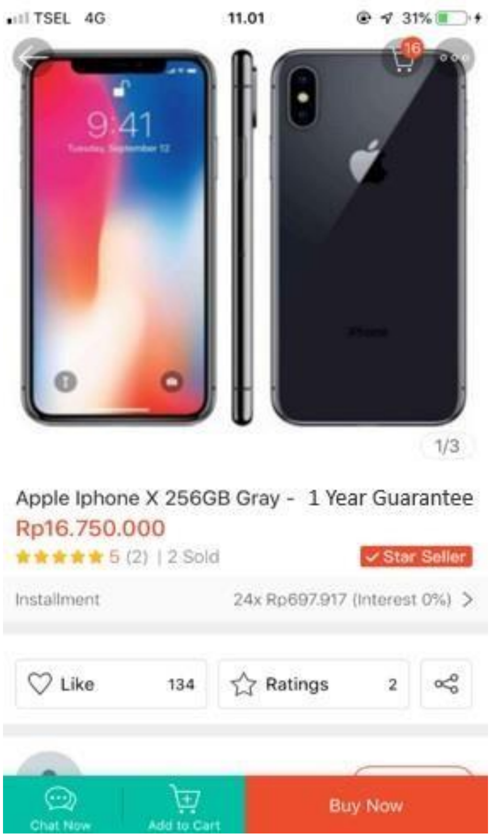
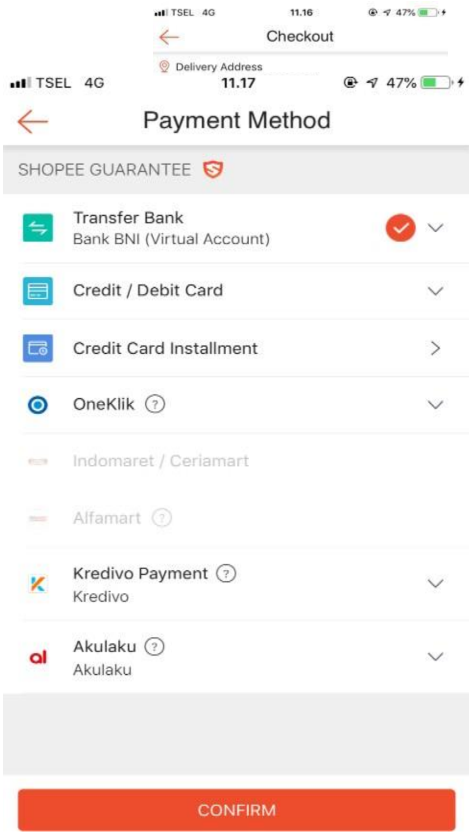


Figure 3. Product details. This figure was adopted from www.shopee.com on November 12, 2018.

See Figure 4, in this view explains the product description of the brand, seller, price, colour, image and delivery courier provider so that the buyer can find out the item to be purchased will be sent by who and when the item will arrive. Users can have the desired product by clicking the buy button now whichis yellow, and there are other options, namely the add button to the cart.

Figure 4. Transactions. This figure was adopted from www.shopee.com on November 12, 2018

See Figure 5, here the process of sending and billing goods to be purchased with the buyer fill in the personal



data, the complete address then shopee will convert the price of the item and the price of the shipping service according to the seller's address to the buyer listed and will add it to the total to be paid by the buyer.
Figure 5. Choice of payment method. This figure was adopted from www.shopee.com on November12, 2018.

See Figure 6, in the payment method, the buyer can choose various methods that can facilitate the buyeras desired by the buyer. As shown above, there are seven methods that can facilitate transactions and ensure security.

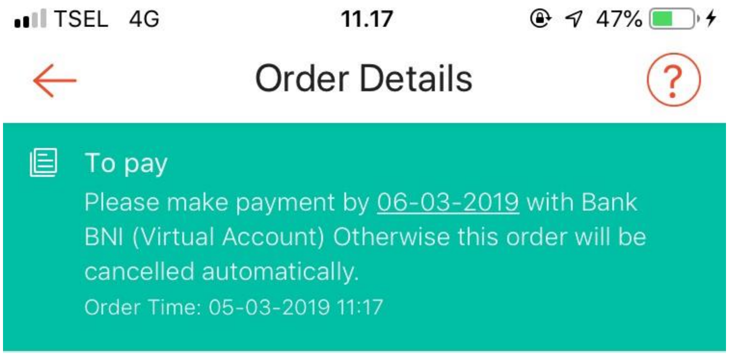


Figure 6. Payment term. This figure was adapted from www.shopee.com on November 12, 2018.

After all is finished now the buyer just makes a payment with the method that has been chosen for example the transfer and Shopee gives 1x24 hours, if within the specified time there is no payment confirmation then the transaction will be cancelled and the money that has been transferred will be returned to the buyer's account and the buyer can withdraw his money or spend it again, but if the payment has been confirmed by the Shopee, the consumer is just waiting for the ordered item to arriveaccording to the shipping expedition or method is chosen. Delivery time cannot be determined by Shopee but is determined by the expedition that the buyer chooses and the distance between the seller and the consumer.

4. Conclusion

Technology is now growing very fast and can help us in opening up new business or job opportunities. In modern times technology now can provides convenience for people who want to do business, especially young sellers because it is easier, more comfortable, more efficient and economical. It is suitable for consumers that enjoy the convenience of purchasing products and with detailed product sothat they can know and compare with other products. Technology nowadays offers transactions with easy payments such as transfers and six other payment methods that have been provided which can be done anywhere and anytime. Then, in terms of security is guaranteed to avoid fraud because Shopee will identify it if that happens. Business competition in technology like this is very competitive. Therefore we need to create a business that attracts enthusiasts such as following the times and creatively so as not to lose out in competing with other same businessmen using this technology.

5. Acknowledgement

The author would like to thank the UNIKOM Rector Dr. Ir. H. Eddy Soeryanto Soegoto., and Dean ofthe Faculty of Economics and Business Prof. Dr. Hj. Dwi Kartini Yahya., SE., Spec. Lic, who has given the opportunity to do this research.

References

[1] Lu, J., Wu, D., Mao, M., Wang, W., and Zhang, G. 2015. Recommender system application developments: a survey. Decision Support Systems, *International Journals Sciences*. **74**(6), pp.12-32.
[2] Thananuraksakul, S. 2018. Factors influencing online shopping behavior intention: A study of Thai consumers. *AU Journal of Management*, **5**(1), pp. 41-6.
[3] Clemes, M. D., Gan, C., and Zhang, J. 2014. An empirical analysis of online shopping adoption in Beijing, China. *Journal of Retailing and Consumer Services*, **21**(3), pp.364-75.
[4] Hsu, M. H., Chuang, L. W., and Hsu, C. S. 2014. Understanding online shopping intention: the roles of four types of trust and their antecedents. *Internet Research*, **24**(3), pp.332-52.
[5] Soeryanto, Eddy.2014.Entrepreneurship Menjadi Pebisnis Ulung.Jakarta.PT Elex Media Komputindo.
[6] Chesbrough H, and Rosenbloom R S (2002)The role of the business model in capturing valuefrom innovation: evidence from Xerox Corporation's technology spin-off companies.
Industrial and corporate change, **11**(3) pp.529-55
[7] Ly L T, Rinderle-Ma S, Knuplesch D, and Dadam P, 2011 Monitoring business process compliance

using compliance rule graphs. *In OTM Confederated International Conferences"On the Move to Meaningful Internet Systems*", 7044, **4**, pp. 82-99 Springer, Berlin, Heidelberg.
[8] Nandiyanto A B D, Ismiati R, Indrianti J andAbdullah A G 2018 Economic Perspective in theProduction of Preserved Soybean (Tauco) with Various Raw Material Quantities IOP Conference Series: Materials Science and Engineering 2881, **3**, p 120-25.
[9] Sharma, G., andLijuan, W. 2014. Ethical perspectives on e-commerce: an empirical investigation. *Internet Research*, **24**(4), 414-35.
[10] Gaikwad, R. S., Udmale, S. S., andSambhe, V. K. 2018. E-commerce Recommendation System Using Improved Probabilistic Model. In *Information and Communication Technology for Sustainable Development* **9**(4) pp. 277-84. Springer, Singapore.
[11] Hair Jr, J. F., Wolfinbarger, M., Money, A. H., Samouel, P., and Page, M. J. (2015). *Essentials of business research methods*. Routledge **1**, 33-46.

***

7

Evaluation of Digital Business ModelOpportunities A Framework for Avoiding Digitalization Traps

Nirmal Kumar Routra

OVERVIEW: In the era of digitalization, manufacturing firms find it difficult to assess what is "the right" digital business model. To avoid common digitalization traps, company leaders and managers need to carefully assess each business model opportunity before committing to implementation and commercialization. We present insights from our case study about the diverse and complex issues related to digital business models. We highlight three digitalization traps and provide a three-phase framework companies can use to evaluate digital business model opportunities and make an informed decision onthe commercial prospects for each model vetted.

KEY WORDS: Digital servitization, Risk management, Business model innovation, Industry 4.0, Digitalization paradox

To avoid missing out on the opportunities presented by digital technologies—like the Internet of Things, cloud computing, artificial intelligence (AI)—industrial companies may sign new business deals in haste. In many cases, the goal is to replicate the success of global high-tech companies such as FAANG—Facebook, Amazon, Apple, Netflix, and Google—by adopting digital business model innovation. For example, by investing in smart and connected products (Porter and Heppelmann 2014) combined with AI capabilities (Gerbert et al. 2019), providers like Volvo and ABB can offer enhanced digital business models based on fleet management and site optimization by monitoring and analyzing the performance of numerous products.

Profiting from digital business models is much more complex than companies frequently assume. Industrial companies ofteninvest in digital technology without fully understanding the implications of digitalization. They try to steer their businessestowards new digital business models, but the returns in termsof revenue enhancement are generally modest and sometimesnegative. This phenomenon is often called the "digitalization paradox," where manufacturing companies are unable to profit from their substantial investment in digital offerings (Gebaueret al. 2020; Parida, Sjödin, and Reim 2019; Sjödin et al. 2020). A key managerial challenge is to rein in the push to digital business model commercialization that arises from exorbitant customer requests and aggressive internal sales targets. Instead, companies must take the time to evaluate carefully the businessimpact and profit potential of new business model opportuni-ties. Current literature and practice offer businesses few insightsinto how to do this accurately and significant gaps remain.

Academics and practitioners have only limited understanding of the traps that manufacturing companies risk falling into and how those traps help to explain the digitalization paradox. Scholars have highlighted the challenge of pinpointing customer needs (Kohtamäki et al. 2020; Lerch and Gotsch 2015), inte-grating multiple digital technologies (Gebauer et al. 2020), anddeveloping new partnerships and distribution channels (Ganguly and Euchner 2018; Kamalaldin et al. 2020). While teams incharge operationalize new digital business models at the time of contract signing, often complex interdependencies exist with elements and processes extending throughout the organization, most of which are outside the operational sales team's control. This complexity and interdependency compounds risk during the business model commercialization process because small errors can cascade into more serious business risks and ulti-mately lead to failure. Companies need to understand the causesof and traps within the digitalization paradox.

Companies lack clear frameworks to evaluate new digital business model opportunities.

Mr. Nirmal Kumar Routra, Assistant Professor, Global Institute of Management, Bhubaneswar

Existing frameworks focus mainly on developing and designing new business models andless on how to evaluate them (Johnson, Christensen, and Kagermann 2008; Osterwalder and Pigneur 2010). This defi- ciency is particularly pronounced for digital business models, which means companies are ill prepared to deal with the many new and unknown decisions associated with digital offerings (Luz Martín-Peña, Díaz-Garrido, and Sánchez-López 2018). Over time, companies' digital offerings for customers oftenprove to be bad deals for both sides of the relationship. Profitability gets squeezed by significant increases in costs andtoo few revenue enhancements (Kohtamäki et al. 2020; Sjödinet al. 2020), and concrete customer value may fail to materi-alize due to deficient processes or understanding of pain points.

Ultimately, companies' credibility and reputation get jeopar- dized as they try to become digital pioneers. To cope with thistendency, companies realize that they need to evaluate the business model opportunity more judiciously before signing abusiness deal involving new digital offerings (Ganguly andEuchner 2018). Companies need a more carefully considered, systematic process for evaluating the potential of digital busi-ness models prior to commercialization.

This study identifies traps inherent in digital business model innovation and offers insights into how industrial companies can improve the way they evaluate new digital business model opportunities. Based on in-depth studies of eight industrial manufacturers, we develop a three-phase digital business model evaluation framework with distinct steps and key questions for companies to consider.

Why Evaluate Digital Business Models?

Many industrial firms use digital technology to innovate their business models and explore new innovative offerings (Sjödin et al. 2020). These digital business models typically add service elements to physical products so that companiescan provide customized solutions (Kohtamäki et al. 2020).

The proliferation of digital technologies points to radicalchanges at the core of business activity and a significant transformation across all dimensions of the business model— namely, value creation, value delivery, and value capture (Sjödin et al. 2020). First, the provider creates value closer to the customer's operations since providers can use data from a fleet of equipment to identify areas for improvement in the customer's ongoing operational processes—for exam- ple, optimization of equipment and condition-based main- tenance (Kohtamäki et al. 2020). Second, the shift to digital business models often requires new kinds of capabilities, such as data analysis and software development, that surpass man-ufacturing firms' core competencies and yet are critical to enable them to deliver the value created (Parida et al. 2014). Many industrial companies have unclear processes and face organizational resistance and inertia when they move beyond developing mechanical equipment to digital solutions(Kamalaldin et al. 2020). The ecosystem relationships required to deliver value also changes. For example, a new market might require new local partners to partake in deliv-ery, and new governance challenges might arise when new stakeholders, such as cloud computing providers, get intro- duced into the business (Sjödin, Parida, and Kohtamäki2019). Third, digital business models often mean moving from a capital expenditures (CAPEX) model, such as the traditional purchase of equipment with add-on repair and maintenance services, to an operating expenses (OPEX) model where the customer pays for an outcome—for instance, the amount of material processed by the equipment (Sjödin et al. 2020). While this shift has strong strategic ben-efits and recurring revenue flows, it also exposes the provider to significant uncertainty and risk it needs to manage. Thesebusiness model challenges are well-known within industries, but firms still struggle with how to mitigate them.

The business model literature has advanced significantly in the design and development of business models (Amit and Zott 2012; Johnson, Christensen, and Kagermann 2008; DaSilva and Trkman 2014; Osterwalder and Pigneur 2010). For example, the business-model canvas by Osterwalder and Pigneur (2010) provides a thorough guide, frequently appliedby both academia and industry, on how to design the businessmodel and its components. Similarly, Johnson, Christensen, and Kagermann (2008) provide a conceptualization of whata business model is and how to go about constructing one. These high-level frameworks provide important analytical insights for industrial firms as they develop new business mod-els. However, what is lacking is a structured methodology toevaluate a business model opportunity before commercializing it. An exception is the article by Euchner and Ganguly (2014), which discusses a systematic approach to developing new business models and identifies concrete steps to reduce the risks associated with them, based on experience from Goodyear. Euchner and Ganguly did not focus predominantlyon digital business models. Risks are higher for digital businessmodels because they differ in nature than the traditional model of manufacturing firms (Kohtamäki et al. 2020).Existing studies effectively explain what a business model is(DaSilva and Trkman 2014), describe what components con- stitute a business model (Gassmann, Frankenberger, and Csik2013; Osterwalder and Pigneur 2010), and demonstrate howto develop a business model (Amit and Zott 2015; Johnson,Christensen, and Kagermann 2008; Sjödin et al. 2020).However, existing studies do not provide a structured meansof evaluating a digital business model in terms of discrete cus-tomer opportunities. We address this gap in the literature byproviding insights into the traps inherent in digital businessmodel innovation and how industrial companies can better evaluate new digital business model opportunities.

Method

The current research initiative has run for more than three years, involving 14 leading industrial companies that operate in mining, manufacturing, transportation, construction, energy, forestry, telecommunications, and pulp and paper. We selected these companies because they all explored digital technologies to offer new innovative services for busi- ness-to-business markets (Table 1). Our research focused on what are the key challenges and traps of digitalization and the provision of digital services to customers, how companies evaluate digital business model opportunities, what specific activities and processes do companies apply during the earlystages of business-model evaluation, and what are the best practices and lessons to be learned from dealing with digital business model commercialization.

We conducted numerous interviews with senior managersand executives in each company who were responsible for digital business development and the digitalization strategyspecifically. Based on these inputs, we gathered insights intothe challenges and other pertinent issues relating to digital business models. As the study advanced, we focused on eightprogressive companies that had recently commercialized digital services for their customers. We gathered detailed accounts of how the management team responsible for commercializationengaged in digital business model evaluation before signingcustomer contracts. For example, we studied the business model commercialization processes for site management solu- tions in mining operations, managed capacity contracts in tele-communications, smart grid solutions for utility providers, and outcome-based service contracts in forestry.

We analyzed our data using thematic analysis, a systematicmethod for discovering themes in complex data sets by cod-ing and categorizing common phrases and themes expressedby interviewees (Braun and Clarke 2006; Cenamor, Sjödin, and Parida 2017). Using this process, we identified digitali-zation traps and the activities companies undertake to avoidthem, as well as to evaluate digital business model opportu-nities. We then identified patterns among the codes to definethe themes and subthemes. Finally, we mapped links betweenthe themes to create a framework to evaluate digital businessmodel opportunities. For example, we grouped the codes “Assess business model opportunity risks” and “Revise busi- ness model to handle risks” into the subtheme “Phase B: Managing Digital Opportunity Risks.”

Based on the data gathered, we developed the first draft of a digital business model evaluation framework. To validate our insights, we conducted a series of five workshops involv- ing key respondents from the eight progressive industrial companies. During the workshop, we focused on asking for feedback, identifying the traps, and verifying the digital busi- ness model evaluation framework. We further validated theframework through two companies that implemented and tested it; these companies work with automation control systems and telecommunications network equipment.

Digital Business Model Traps

Due to increasing competition and fear of new entrants, thecompanies we studied often adopted a high-risk, all or nothing strategic approach. By adopting this approach, com- panies get market traction for digitalization efforts in the form of increased resource allocation and ability to explore new customer opportunities. Yet the strategic push can alsolead to digitalization overreach—that is, exploiting opportu-nities without conducting the appropriate research. As our study shows, the lack of research leads to failure to exploit the new digital business model. This failure occurs due to three common traps:

1. Pushing out a digital business model without understand-ing customer value;
2. Promising additional gains without understanding thevalue delivery process; and
3. Getting sold on the digital opportunity without under-standing the profit formula (Table 2).

Trap 1: Pushing Out a Digital Business Model Without Understanding Customer Value

In their rush to explore digital business model opportunities, companies may not appreciate specific customer needs that they ought to fulfill. Their approach does not systematically untangle the true value a digital offering creates. Engineering-intensive companies are often overly enthusiastic about the potential value of digital technology but fail to consider fully what the customer requires. A forestry company's technical director described how representatives from their forest equipment provider eagerly promoted their digital preven- tive maintenance solutions and its numerous functionalities without clearly understanding how that digital offering would deliver his top priorities of increased productivity and lower costs. Feeling under pressure to pursue digital oppor-tunities, he invested in the equipment provider's ambitious digital service contract. This service contract did not last long because it failed miserably to address the customers' needs— namely, productivity gains and lower operational costs.

A related concern is that customers put companies on the wrong track because they cannot articulate their specific needs. In such cases, providers may agree to solve a customer problem without having critically evaluated the specific need and its business potential. One provider of mechanical equip- ment expressed frustration after co-developing a new oper- ation-monitoring and optimization service with the customer over a nine-month period. Once the solution was ready for full-scale launch, the customer hesitated and was unwilling to pay for the "highly valuable service" for their operation. In essence, the customer valued only one part of the service highly enough to be willing to pay for it; they didn't want to pay for the whole solution. As the service manager explained, "We obviously hadn't, under that nine-month period(!), been able to understand what this service was worth for the customer—clearly, it wasn't as much as we had expected and calculated for."

Trap 2: Promising Additional Gains Without Understanding the Value Delivery Process

Digital initiatives get launched with promises of value cre- ation but without clear understanding and details regarding the basic infrastructure and competencies needed (for exam- ple, roles, processes, service points) to ensure delivery of the value proposition. For example, a construction equipment company launched a site optimization solution without hav-ing its sales and after-market organization, and skills to man-age such ambitious offerings, ready.

When introducing new digital solutions, companies need to rethink and reconfigure the delivery process. We observed increasing conflicts because of misaligned back ends (head-quarters) and front ends (distributors) in seeking to fulfil a common goal of digital business model commercialization. Issues range from dealing with many business models simul-taneously, needing to change the mindset of delivery staff, making significant investment in the delivery process, to managing market heterogeneity. A valuable digital offering may fail because a company has yet to implement the appro-priate processes for delivering that value. In such cases, the outcome is a severely diminished value proposition that causes customer dissatisfaction, loss of brand value, and finan- cial loss. A sales manager at the forest equipment manufac- turer said, "My sales force is not used to selling on optimization or efficiency parameters, they are product experts and used to selling arguments based on technical features—not how much time a customer can save if we optimize their fleet."

Trap 3: Getting Sold on the Digital Opportunity Without Understanding the Profit Formula

Companies often fail to fully consider the implications of the digital business model in terms of the profit formula—that is, the revenue model versus the cost structure. Lack of expe-rience in analyzing financial parameters—that, understand- ing how the business model reacts to different market conditions, such as fluctuating demand, and identifying the critical boundary conditions—leads to mistaken choices of price and performance parameters, as well as flawed con- tracts. Companies act on the premise that they can derive benefit from investing heavily to develop solutions for a spe-cific customer by scaling the offering through additional sales to other customers. Because digital solutions tend to be highly customized, they may offer only limited scalability unless explicitly and strategically determined from the outset. To ensure revenue generation, companies need to under- stand a digital opportunity's value, not only for their current customers but also for the broader market.

Similarly, when companies try to estimate the actual costs of exploiting new digital opportunities, they may be unable to determine the full range of possible costs. Some costs may be obscured in the overall cost structure. Others may be inde-terminate currently but would nonetheless be important for the future profit formula—for example, costs of hiring new service staff, investment in ongoing IT development, and cus-tomization and maintenance of digital platforms/systems. According to a fleet management system manager at a trans-portation machinery provider, "We didn't have enough expe-rience with this kind of deal to set up a bullet-proof contract. How to calculate it financially over time, and what parameters to actually charge for, took us a few iterations to figure out." We provide an example of how a telecom network equip- ment provider encountered these traps in a recent deal (see“A Practical Example of Digital Business Model Traps” on page 48).

A Framework for Evaluating Digital Business ModelOpportunities

Opportunities for digital business model innovation are abundant; they can arise from customer requests, strategic initiatives, and active sales units. Although the ambition to commercialize these opportunities is often strong, managersshould carefully evaluate each business model devised to promote a new digital offering before signing a deal with thecustomer. For example, knowledge gleaned from prior faileddigital business model initiatives motivated the telecomnetwork equipment provider in our example to institute a process of systematically assessing each new customer oppor- tunity to match it to the right kind of business model. As one manager involved in the business model development said, “We have learnt over time that we need to be able to make more professional assessments of what a new business model is, and provide better decision material where we highlight the risks and financial implications of making a decision to go or not to go, because the normal process is designed for traditional rollouts.”

In our study, we found that companies have developed structured approaches to evaluate new digital business models before taking final commercialization decisions (signing a contract). Aggregating best practices from these approaches using our thematic analysis, we have defined a three-phase evaluation framework that can help companies improve their business model innovation practices.

A Practical Example of Digital Business Model Traps

A case from the telecommunication industry illustrates the traps inherent in digitalization. A request for a digital business modelcame from the customer organization seeking a solution to deal with the rapidly growing market demand for bandwidth. The strong pull from the customer, together with a newly established working relationship between the CEOs of both organizations, enabledthe fast realization/commercialization of an outcome-based contract where revenue was tied to “used network capacity.” Havingthe customer drive the development of the digital opportunity ensured the telecom network equipment provider avoided *Trap 1:Pushing out a digital business model without understanding customer value*.

However, in its rush to get the digital business model up and running, the provider fell into *Trap 2: Promising additional value withoutunderstanding the value delivery process*. Because it lacked experience with digital offerings and possessed only limited knowledgeof the requirements such businesses place on the delivery organization, the provider struggled to develop new invoicing routines,distribute responsibility internally, redesign the local support organization, and calculate in the costs associated with increased risks. The consequence was early losses.

The strong customer pull persuaded the provider of the efficacy of the digital opportunity without fully understanding the profitformula--as a result, the provider fell into *Trap 3: Getting sold on the digital opportunity without understanding the profit formula*. Most challenges originate from difficulties in how best to distribute costs internally amongst departments and how to calculate revenue from fluctuating demand for the outcome (“used capacity”). A related issue lies in understanding how the introduction ofa new business model impacts a company’s existing business models with customers. Knowledge gleaned from developing this digital business model motivated the telecom network equipment provider to institute a process to systematically assess any new customer opportunity to match it to the right kind of business model.

The three phases include the following: Phase A: assessing dig- ital opportunity value, Phase B: managing digital opportu- nity risks, and Phase C: modelling digital opportunity financials (Figure 1). Each phase has a specific focus con- taining two steps that unfold sequentially, and an ultimate purpose of reaching an informed decision on the prospects for commercializing the digital business model under eval- uation. While the steps follow a sequential logic, a firm mayneed to go through the framework several times if the eval-uated business model opportunity gets a “no-go”. We describe each phase, the steps for each, and questions to consider (Table 3).

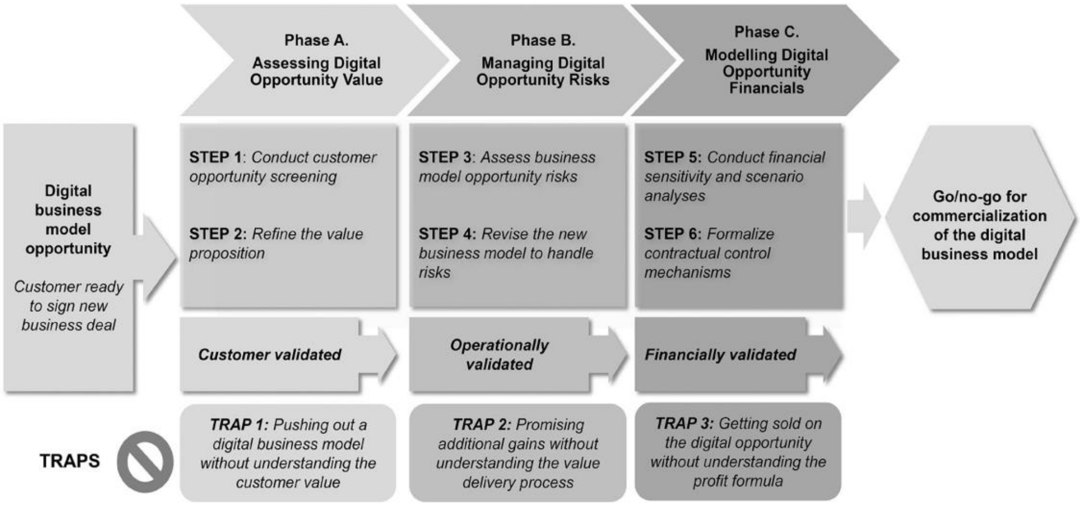


FIGURE 1. A framework to evaluate digital business model opportunities

Phase A: Assessing Digital Opportunity Value

In this phase, companies conduct a systematic assessment ofthe customer opportunity against the new digital businessmodel. The logic of this assessment entails adding and captur-ing additional value for both the customer and the provider.As one digital solution manager put it, "To understand the potential of a digital offering, you need to understand how itsolves a customer problem—what specific function, paymentmodel or technical feature is it that created value for them?"*Step 1: Conduct customer opportunity screening*—This step entails obtaining deep insights into customer activities to understanda digital offering's potential. By understanding the nature of thecustomer business through structured analysis of operationaldata from disparate systems, a company can more easily screenfor attractive value propositions. Companies must understand the underlying assumptions concerning what customers thinkabout their own efficiency and what they recognize as oppor- tunities for greater efficiency (bottlenecks), and which digitalservices (for example, fleet tracking, site optimization) can helpwith a solution. Thus, focusing on a well understood and eval-
uated customer opportunity is a vital first step.

A systematic approach to customer opportunity screeningentails looking outwards to the customer and inwards to thecompany's internal strategy. For example, the new businessmodel needs to understand and dissect customer needs and objectives. A mining equipment provider we studied initially screened and listed problems and challenges that customersfaced—for example, traceability of materials and lower CO_2 emissions. The provider produced a list of possible customeropportunities that needed to be addressed. The provider canrank the opportunities according to their importance for thecustomer and its ability to solve them through combinations of analytics software and connectivity, and then make an informed decision about which opportunity to target.

Step 2: Refine the value proposition—This step involves assess-ing what is unique and compelling about the customer solu-tion under consideration and then refining those aspects. Companies should be wary of pursuing opportunities that do not differentiate themselves from the competition; it willbe hard to scale such business models for other customers and secure acceptable profit margins. Conducting a
competition screen—that is, discovering competing offer- ings—is thus an important component in this step.

As part of the value proposition, companies should also compare the value created to the cost of the solution. For example, a global automation and control system provider described how the company would consider a gain/pain ratio, which involved measuring the gain delivered to the customer versus the pain and cost for the customer in adopt-ing the proposition. If a misfit exists between the business model idea and the customer opportunity, companies shouldput the process on hold to revise the digital business model commercialization process or stop it altogether.

The final output of Phase A should include a customer needsanalysis and a customer validated digital business model oppor-tunity, so the provider can be certain that the value propositioncreates value for the customer and avoids *Trap 1: Pursuing thedigital business model without understanding customer value.*

Phase B: Managing Digital Opportunity Risks Commercializing a new digital business model opportunity isoften connected with increased risks when somethingunknown surfaces, and when the business landscape is subject to change. In this phase, companies aim to make informed business decisions related to the additional business risks asso-ciated with introducing a new business model. A business development manager from a manufacturer of construction equipment stressed the importance of this phase: “You cannotskip this step; a digital business model entails new kinds of risks which we as a product-oriented company have difficulties inestimating—what are the consequences of charging per usagehour? Do we need to calculate for changed maintenance rou-tines? Will such an offer change the customer’s behavior?”

Step 3: Assess business model opportunity risks—This step entails a structured assessment of new risks that can arise inthe shift towards uncertain digital offerings. For the purposeof identifying risks and their causes and consequences, manymanagers we interviewed recommend using staff experienced in implementing new business models to brainstorm and cap-ture diverse competencies and alternative perspectives. Thisqualitative analysis is a key source of learning that can furthershape the digital offering and the contractual setup. To makethis step more efficient, our interviewees highlighted the importance of focusing on risks related to the specifics of digital business models (similar to the list of traps) and avoiding the general risks associated with every contract. Fourof the eight companies we studied clustered risks relating tomaturity of digital solutions, digital service delivery compe-tencies, and changed customer behavior caused by revised contractual responsibilities. For example, companies canmanage and maintain connected products remotely for the customer, but this shift in responsibility may change customerincentives and increase costs: customers may act opportunis-tically to overuse the products when they are no longer responsible for maintenance costs. In addition, the battle to tap into the value underpinning digitalization and digital plat-forms may provoke volatility in the roles and ambitions of sub-suppliers and/or partners, whose contributions may wellbe essential for the success of a new business model.

model to be opti- mized for the specific conditions of the customer opportunity. The focus on handling risks, however, must not compromisethe scope for innovation and creative thinking—that is,cycling back to the established business model—since tradi- tional, product-based business models may erode the value of digital solutions for both sides. Companies should use identified risks and conclusions drawn from the evaluation constructively and feed back to the “owners” of the oppor-tunity (the local sales team) so that the business model can be shaped to manage these risks optimally.

The key activities center on suggesting actions to managethe risks and related consequences. The specific focus is to select the right approach to risk management, which includes the following options: 1) avoiding the risk (makingsure it is outside the scope of the offering); 2) mitigatingthe risk (acting to reduce the negative impact); 3) transfer- ring the risk (letting the other stakeholder take risk as well as reward); and/or 4) leveraging the risk (charging custom- ers/other stakeholders for the costs). Where there are sig- nificant costs related to implementing these options, they need to be specified and, if possible, quantified to avoid value leakage. As many digital initiatives are new and inno-vative, companies need to decide how the estimated miti- gation costs of the business model shall be covered by the first offering and how much shall be covered by future offerings. Due to this uncertainty, companies need to assessthe risks identified with the corresponding expected rewards—risks should be taken if the potential reward is high enough. The risk-analysis activity should not be seen as a pure “financial control filter” for innovative ideas but rather as an activity enabling the “smart design” of new digital business models and informed decisions.

The final output of the opportunity-risk management phase should include a detailed risk assessment and an oper- ationally validated digital business model opportunity to help the company avoid *Trap 2: Promising additional value through digital offerings without understanding the delivery processes*.

Phase C: Modelling Digital Opportunity Financials

Before commercialization, companies should analyze the financial parameters carefully to ensure that the new business model includes a robust profit formula. Our interviewees highlighted the astounding number of failed business model initiatives stemming from miscalculations, or no calculationsat all, about the parameters influencing economic viability. This phase entails gaining understanding of the commercialdynamics and consequences of implementing the new busi-ness model as well as the impact on the existing business. This understanding is even more important in digital businessmodels because revenue streams are neither fully linked norproportional to the cost structures to the same degree. A ser-vice development manager from a provider of forestry equip-ment said, “We have realized that we need a better way to understand the financial parameters if we are going to try outthese [proactive maintenance] contracts, so that we can cal-culate the risks that need to be built into the contracts.”

Step 5: Conduct financial sensitivity and scenario analyses—This step meets the objective of improving understanding of howthe model reacts to changed market and solution assump- tions, thus assuring the robustness and financial viability ofthe digital business model. A key part of this analysis is iden-tifying the critical financial parameters and how they affectthe business model’s profitability. In traditional business models, costs and revenues are closely linked in the sense that, when a product is delivered, the cost occurs, and the payment is then controlled through the contract. In a digital business model, revenue may be linked to used capacity or improved efficiency of a system or equipment, while the provider incurs the costs for delivering this value.

Sensitivity analysis involves testing how different assump- tions exert an impact on digital business models. The globaltelecommunication company we studied provides a good example of how to carry out this analysis. The global telco had learned from earlier failure to calculate revenue from fluctuating demand and had developed a structure for per- forming sensitivity analysis. The company did the sensitivity analysis by varying the market and solution assumptions sequentially—for example, the number of subscribers or thecapacity needs—to analyze how different assumptions impact financial outcomes. The company used this knowledge to determine pricing parameters and incentive models, which ensured a financially viable business model.

A more sophisticated scenario analysis entails combiningmarket assumptions into sets that represent different financial scenarios (pessimistic, expected, and optimistic) and modeling the financial projections in each case, which can then be usedto stress test the new digital business model. Ideally, the newbusiness model should be robust enough to survive these sce-narios. If not, the case is made for considering a revised rev-enue model or introducing contractual limitations.

Sensitivity and scenario analyses are useful tools thattogether provide a good picture of the overall financial uncer-tainty associated with the new digital business model.Management can use these to support its decision-making. *Step 6: Formalize contractual control mechanisms*—This step is the final task, and its purpose is to develop contractual con-trol mechanisms that secure clarity of scope, control of therevenue model, and management of change (avoiding scopecreep). The contractual aspects are crucial in managing bothrisks and rewards. Specifically, the contract describes theintention (a formal representation of the business model),including the vision underpinning the business model, thearguments for it, its fundamental structure (scope, respon-sibilities, liabilities, prices, and payments), and the valueproposition. Due to the contract's formal value, it becomesthe "reality" and, therefore, defines the base from which thebusiness risks derive in practice. The consequences in termsof risk exposure and especially the financial results are, to alarge degree, the result of the scope and content of the con-tract, irrespective of the intentions behind the model that
make contracting critical for digital business models.

In formalizing the contract, key activities include devel- oping clear definitions, processes, and tools for verifying sta- tus, measuring development, following up on actualoutcomes, and putting in place rules governing adaptations to current processes to secure operational control. Companies need to secure ownership of the risks, such as specifying who is responsible for both internal and external risks. For exam-ple, a forest equipment provider exploring an advanced ser-vice contract with a key customer had failed to specify which organizational role was supposed to monitor the usage data of the equipment to enable preventive maintenance. This spelled failure to realize value for the customer.

Phase C helps companies to avoid *Trap 3: Getting sold on the customer opportunity without understanding the profit formula*. Thefinal output of the opportunity financials modeling phase should include a detailed assessment and a financially vali- dated digital business model opportunity, leading to a go/no-go recommendation. We provide a practical example of a globaltelecommunications company using our framework (Table 4).

Conclusion

In their efforts to capitalize on digitalization, companies mayrush to commercialize new digital business models withoutcarefully considering the consequences. Our study underscores the importance of evaluating the business model to avoid traps that can severely impact the financial viability of industrial companies. Companies must ensure digital business modelsaddress true customer needs, align with internal strategies, and maintain a judicious balance between risk and reward. Our comprehensive framework can help companies avoid unnecessary risks in their digital business model innovationactivities. It supports both individual executives and companies in taking control of their business model innovation processesand in appreciating the critical decisions, traps, and trade-offsinvolved, thereby allowing organizations to derive the full ben-efit from digital business models. While we developed our framework in the context of industrial companies, companiesin other industries can benefit from these evaluation principles.

References

Amit, R., and Zott, C. 2012. Creating value through business model innovation. *MIT Sloan Management Review*, March 12. https://sloanreview.mit.edu/article/creating-value- through-business-model-innovation/

Amit, R., and Zott, C. 2015. Crafting business architecture: The antecedents of business model design. *Strategic Entrepreneurship Journal* 9(4): 331–350. doi:10.1002/sej.1200

Braun, V., and Clarke, V. 2006. Using thematic analysis in psychology. *Qualitative Research in Psychology* 3(2): 77–101. doi:10.1191/1478088706qp063oa

Cenamor, J., Sjödin, D. R., and Parida, V. 2017. Adopting a plat- form approach in servitization: Leveraging the value of digita- lization. *International Journal of Production Economics* 192:54–65. doi:10.1016/j.ijpe.2016.12.033

DaSilva, C. M., and Trkman, P. 2014. Business model: What it is and what it is not. *Long Range Planning* 47(6): 379–389. doi:10.1016/j.lrp.2013.08.004

Euchner, J., and Ganguly, A. 2014. Business model innovation in practice. *Research-Technology Management* 57(6): 33–39. doi:10.437/08956308X5706013

Ganguly, A., and Euchner, J. 2018. Conducting business exper- iments: Validating new business models. *Research-Technology Management* 61(2): 27–36. doi:10.1080/08956308.2018.142
1381

Gassmann, O., Frankenberger, K., and Csik, M. 2013. *The St. Gallen business model navigator*. https://www.alexandria.unisg. ch/224941/7/Business%20Model%20Navigator%20working
%20paper.pdf

Gebauer, H., Fleisch, E., Lamprecht, C., and Wortmann, F. 2020. Growth paths for overcoming the digitalization paradox. *Business Horizons* 63(3): 313–323. doi:10.1016/j.bushor.2020.
01.005

Gerbert, P., Ramachandran, S., Mohr, J., and Spira, M. 2019. The Big Leap Toward AI at Scale. Boston: BCG Henderson Institute. https://image-src.bcg.com/Images/BCG-The-Big-Leap-Toward-AI-at-Scale-June-2018_tcm9-194345.pdf

Johnson, M. W., Christensen, C. M., and Kagermann, H. 2008. Reinventing your business model. *Harvard Business Review* 86(12): 57–68. https://hbr.org/2008/12/reinventing-your- business-model

amalaldin, A., Linde, L., Sjödin, D., and Parida, V. 2020. Transforming provider-customer relationships in digital ser- vitization: A relational view on digitalization. *Industrial Marketing Management* 89:306–325. doi:10.1016/j.indmarman.2020.02.004

Kohtamäki, M., Parida, V., Patel, P. C., and Gebauer, H. 2020. The relationship between digitalization and servitization: The role of servitization in capturing the financial potential of digitalization. *Technological Forecasting and Social Change* 151:119804. doi:10.1016/j.techfore.2019.119804erch, C., and Gotsch, M. 2015. Digitalized product-service systems in manufacturing firms: A case study analysis. *Research-Technology Management* 58(5): 45–52. doi:10.5437/08956308X5805357

Luz Martín-Peña, M., Díaz-Garrido, E., and Sánchez-López, J.
M. 2018. The digitalization and servitization of manufactur- ing: A review on digital business models. *Strategic Change* 27(2): 91–99. doi:10.1002/jsc.2184

Osterwalder, A., and Pigneur, Y. 2010. *Business model generation: a handbook for visionaries, game changers, and challengers*. New York: John Wiley & Sons.

Parida, V., Sjödin, D., and Reim, W. 2019. Reviewing literature on digitalization, business model innovation, and sustainable industry: Past achievements and future promises. *Sustainability* 11(2): 391. doi:10.3390/su11020391

Parida, V., Sjödin, D., Wincent, J., and Kohtamäki, M. 2014. Mastering the transition to product-service provision. *Research-Technology Management* 57(3): 44–52. doi:10.5437/08956308X5703227

Porter, M. E., and Heppelmann, J. E. 2014. How smart, con- nected products are transforming companies. *Harvard Business Review* 93(10): 96–114.

Sjödin, D., Parida, V., Jovanovic, M. and Visnjic, I. 2020. Value creation and value capture alignment in business model inno- vation: A process view on outcome-based business models. *Journal of Product Innovation Management* 37(2): 158–183. doi:10.1111/jpim.12516

Sjödin, D., Parida, V., and Kohtamäki, M. 2019. Relational gov- ernance strategies for advanced service provision: Multiple paths to superior financial performance in servitization. *Journal of Business Research* 101:906–915. doi:10.1016/ j.jbusres.2019.02.042

Sjödin, D., Parida, V., Kohtamäki, M., and Wincent, J. 2020. An agile co-creation process for digital servitization: A micro-ser-vice innovation approach. *Journal of Business Research* 112:478–491. doi:10.1016/j.jbusres.2020.01.009

***

The sites and practices of business models 8

Shradhanjali Panda

ABSTRACT

This paper examines the concept of business models. Drawing on the business model literature, we first identify technology, market offering and network architecture as the three core elements of business models. The theoretical routes of each element are then examined through the associated literatures: technology and innovation studies, industrial marketing, operations strategy, and evolutionary economics. Multiple dimensions of each element are identified and the resultant framework is used to explore developments within the recorded music market across three centuries. Through changes in the recorded music market since the 1870s, we explore how business models emerged, took on multiple sites and evolved through their practice over time. We look at how interlinking business models become spread out across the business network as different network actors play their part. The recorded music market generates important insights into how business models are created, developed and practiced. We suggest that firms, business networks and markets form embedded systems within which multiple overlapping business models can be considered as constituent parts. In this way, the business model is understood as having agency to shape action; but in turn actions (of others in the business network as well as within the firms themselves) also shape the business model

1. Introduction

Until 2000, the notion of business models was largely the preserve of internet-based businesses. In early internet-based manifestations, business models were only meaningful at a network level. Often the business model notion was invoked to explain how novel types of business (like e-marketplaces, aggregators or online content pro- viders) would actually make money. This was vital in an industry unfamiliar to would-be investors. Writers at that time saw business models as the descriptions of the roles of various network actors (Timmers, 1999: 63) and the flows between the actors of product, service, information and revenue (Weill & Vitale, 2001). In other words, firms were being understood *from the outset* in terms of their position and role in business networks (Axelsson & Easton, 1992; Håkansson, 1982).

As the idea of the business model became more widely adopted, it has come increasingly to be applied only at the firm level: the business model is seen as a property of the firm. Consequently, and regrettably, some of the flexibility and creative ambiguity of the business model notion has been lost. Once it had seemed simultaneously to be useful both at firm level and network level; both as a broad organising concept and as a rather specific statement of revenue, product and service flows. Now, in many cases, it has become reduced to a rather static concept, often difficult to distinguish from Porter-esque competitive strategy and increasingly only applied at the level of the firm. It is perhaps understandable that consultants and their like (Casadesus-Masanell & Ricart, 2010; Magretta, 2002) should be mainly interested in working at firm level; likewise, for different reasons, strategic management scholars (Zott & Amit, 2008). However, we suggest, that maintaining a more open mind about the business model concept and, in particular, about the relevant level of analysis — firm, network, industry or market — generates new insights for academics and managers alike. Taking a network perspective, our question is ‘how are business models created and practiced?’

In order to say how business models are created and practiced, we first need to say what they are. The paper begins with a review of some prominent contributions to the business model literature and discusses some of its shortcomings. We present a business model framework that emerges from this literature and examine the underlying theoretical ideas behind it.

Shradhanjali Panda, Asst.Prof. GIFT, Bhubaneswar

Our approach then is to take a cue from an archetypal contempo- rary instance of business model change. The recorded music industry has recently been disrupted and transformed by the advent of downloaded MP3 files and the rise of Apple iTunes. We suggest that, although this is a recent phenomenon, and was widely discussed as an instance of business model innovation, the early efforts to make money out of sound recording in the late 19th century were just as much about the development of novel business models as the innovations of the 21st century. We present episodes in the 120- year-long evolution of sound recording and recorded music business models as a way to illustrate and explore the framework. Using aspects of practice theory, we examine the multiple and changing sites of the business models, and the various combinations of practices through which this happens. We argue that a multi-level, multi-site approach to business models is useful in helping managers understand how to frame and co-ordinate collective action.

2. The business model literature

The value of business models lies in their ability to capture important elements of organisational strategy and make them form a coherent and compelling whole (Timmers, 1999). To date, the vast majority of research on business models has treated them as descriptions of how business is done (Chesbrough & Rosenbloom, 2002; Magretta, 2002), identifying the underlying elements or components that detail what the business model is at the level of the firm (Osterwalder, Pigneur, & Tucci, 2005; Zott & Amit, 2007). The three key elements consistently identified as the cornerstones of business models can be summarised as 1) technology (or the technologies that make up the product/service offering, its delivery and management), 2) market offering (what is actually offered to the customer and how) and 3) network architecture (the configuration of buyers and suppliers that make the market offering possible). The extant research understands a business model as an objective representation of the reality of the firm and its markets. In this way the business model is understood to represent a truth, describing the way a particular business works. But we know from the industrial marketing literature that any change in a firm's business network can have implications for the firm itself (Håkansson & Snehota, 1995). In this sense an important limitation of the business model literature is that it only creates a description of the firm at a single point in time and in so doing, fails to take account of the influence of the business network on the business model and vice versa. Taking a network perspective on business models and their creation and practice suggests that the business models of networked firms, must in some way be overlapping or complementary. Similarly, business models must have multiple sites.

If business models are to exist in multiple sites, where are they to be found? The concept of business models has been applied at three levels: by Doganova and Eyquem-Renault (2009) to understand how individuals (entrepreneurs) interact to develop their business model; by Chesbrough and Rosenbloom (2002) at the firm level; and by Mahadevan (2000) to understand e-commerce at an industrial or market level. What is consistent across the business model literature is the recognition that business models evolve through the in- teractions of individuals in social groups, both within the firm and within the wider business network. Schatzki (2005) argues that as individuals are embedded in the social lives of both firms and markets, we need multiple sites of analysis when trying to understand organisations and what they do. Similarly, Nicolini (2010: 1391) discusses the connectedness of these levels recognising the need for "*zooming in and zooming out*" in order to generate insights into such phenomena. Yet despite these valuable observations, we know little about the way business models are created and evolve at multiple levels and perhaps in multiple forms in these embedded systems. Understanding something about the sites of business models seems relevant and pertinent to generating deeper insights into their creation and practice.

How then do managers *practice* business models; how do they make them happen? If business models are to be understood not as descriptions of reality, but rather as frames for action, then we can see how the network perspective and the firm perspective might be linked in a system of firms, networks and markets. We need to understand more about how managers conceptualise, theorise and enact the modelled changes in organisations and markets. Birkinshaw, Hamel, and Mol's (2008: 825) work represents one of the first attempts to systematically examine "*the invention and implementation of management practice, process and structure… intended to further organizational goals*". By focusing on the specific actions individuals take in order to lead to the emergence of management innovation, Birkinshaw et al.'s (2008) research makes two important contribu- tions. First, it suggests that both internal and external actors have a significant influence on the emergent management practices of a firm; and second, it suggests that the process of management innovation does not always proceed as a linear sequence of activities from motivation through to theorization and labelling (also see, Pfeffer & Sutton, 2000). This is consistent with the descriptions of how business models are developed, presented and divulged to different stake- holders for different purposes (Doganova & Eyquem-Renault, 2009). In this way, the *business modelling* process can be understood to be both influencing and being influenced by not only internal actors within the firm developing the business model, but also by external actors within the business network — because of this complexity it seems unlikely that a linear sequence of activities could ever exist. Doganova and Eyquem-Renault (2009) show how the business model of an entrepreneur evolved and changed over time as the different stakeholders commented on, bought into and disengaged from their original business model. By divulging different parts of the business model to investors, suppliers and customers, the business model (or fractions of it) becomes sited in the business models of others. Thus, the sites of business models tell us something of how they happen. However, Doganova and Eyquem-Renault (2009) focus on the materiality of the business model; the form it takes in formal documentation, PowerPoint slides and targets. They pay far less attention to the management practices that perform, realise and evolve the business model as it happens (Schatzki, 2006). This has implications for the practice of business models, as it suggests that they are necessarily dynamic in nature (Mason & Leek, 2008) and that business models and their practices might interact in an iterative and evolutionary way. Business models are not first designed and then implemented, but are more usefully thought of as strategy-as-practice; incrementally emergent and ever-changing.

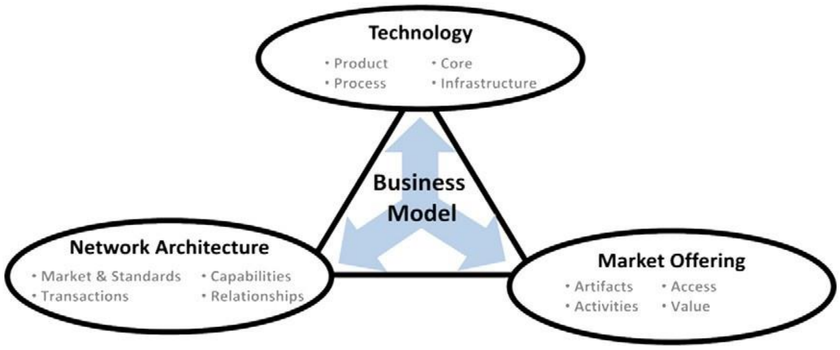
We take recorded music as a business context (see Dowd, 2002),
within which to explore the creation and practice of business models in times of change. We draw on three business model elements consistently identified in the business model literature; (i) technol- ogies, (ii) market offering and (iii) network architecture to explore this historical account; tracking how new business models emerged and old ones changed as new actors entered the network and did new things. We study business models in action (Latour, 1987). By ‘zooming in’ we explore business models as frames for action; allowing front-line workers to translate, adapt and act in contextually appropriate ways. By ‘zooming out’ we explore the *practice of business models*; how these frames are created and transformed by enrolling actors in the business network, and shaping and making the markets within which they act.

3. The theory behind business models

The business model literature as such came out of empirical settings in e-business and entrepreneurship, and has found its most stable home in the strategy literature (Amit & Zott, 2001; Zott & Amit, 2008). This means that the unit of analysis is driven toward the firm, and the business model's multi-level implications can become lost. Some strands of business model literature has, however, concentrated more on technology (Chesbrough & Rosenbloom, 2002) and has maintained an inter-firm perspective (Chesbrough & Schwartz, 2007). This section explores the theory behind the business model elements and, where applicable, draws attention to the management practices that are discussed in the extant literature. We draw parallels between the theory and the examples from the sound recording market. The
theory drawn on here forms the basis for the business model framework (Fig. 1).

3.1. Technology

Technology can be understood as the usage and knowledge of tools, techniques, systems, methods of organisations or material products (Kremer, 1993). Much of the innovation literature is concerned with product technologies (see, for example Christensen, 2000; O'Connor & Veryzer, 2001; Stump, Athaide, & Joshi, 2002). While acknowledging the importance of these, we suggest that a business model analysis needs to take account of three other classes of technology: process, core and infrastructure. Such an analysis needs to understand the interplay among these, and between them and other aspects of the business model, i.e. the market offering and network architecture.



Process technologies are those used to manufacture products or deliver services. A recurring concern of the technology literature has been the relationship between product and process technologies in firms' strategies. The seminal work of Utterback and Abernathy (1975) identifies a shift in technology innovation over time from product to process innovation. This has in turn been used to inform the basic theory of manufacturing strategy (Hayes & Wheelwright, 1979). Building on this logic in a new setting, Cusumano (2008) shows how after process innovation, software houses often innovate by adding services. He suggests that this might be a more general pattern; however, evidence from the music industry indicates that there is no particular sequence to these different types of technolog- ical innovation (John, Nightingale, & Syed, 2009), and we maintain a similarly agnostic view on this.

Core technologies (Twiss, 1992) are those that underlie particular product technologies. They often dominate managerial practices and have a significant influence on what innovations the organisation identifies (also see, Chesbrough & Schwartz, 2007; Teece, 1987). So, the iPod was not a single product technology innovation but rather part of a family of alternative but similar products (see Fig. 2), based on the same core technologies, such as specialised chips, small, high-resolution screens and small, long-life batteries.

Infrastructural technologies are those that enable connexions. In general, these might include the internet, mobile telephone networks and systems for containerised shipping. It is clearly the internet that enables the iPod/iTunes market offering to work, and we increasingly think of it as akin to a utility (Rappa, 2004), but we do well to remember that it is not ‘just there’, but the product of investment in and development of international digital communications and storage infrastructure (Metters & Verma, 2008).

As such, the underlying theory of the technology element of business models suggests four distinct dimensions to technology: product, process, core, and infrastructure technology. Different firms in the network have differing degrees of direct control over these. Hence, to a greater or lesser extent and depending on the specific case, process, core and infrastructural technologies should not be treated simply as ‘environmental variables’ but as part of the network of internal and external actors that practice the business model (Birkinshaw et al., 2008; Birkinshaw, Bessant, & Delbridge, 2007).

3.2. *Market offering*

The apparent vulnerability to competition of established product- based business models e.g. (Lindberg & Nordin, 2008; Windahl & Lakemond, 2006) has led to a renewed questioning of the ways in which value can best be provided to customers. The notion of the market offering, which we adopt from Normann (2001), captures this open-mindedness about the respective roles of products and services in business models. Following Araujo and Spring (2006), we suggest that the market offering concerns the nature of the producer-user interaction, rather than any essential feature of a particular product or service. Callon (1991: 136) understands products as ‘*programs of action*’ aimed at coordinating a network of distributed roles (D'Adderio, 2001; Hagberg & Kjellberg, 2010), including those of

objects as well as human actors (Harrison & Kjellberg, 2010). The market offering is thus conceptualised as "*not a physical product, but a way to reconfigure activities and stimulate and enable value creation*" (Normann, 2001: 119). Drawing on concepts from marketing (Lovelock & Gummesson, 2004) and economic sociology (Gadrey, 2000), we therefore characterise the offering as consisting of the value-creation opportunity arising from alternative combinations of *artefacts*, *access* to suppliers' capabilities and capacities, and *activities* performed by the supplier(s) on the customer and/or its property.

Value can be defined as the benefits derived by a customer from an exchange. Anderson and Narus (1992) argue for the importance of understanding what customers value (or might value in future) and Narayandas (2005) points out that in industrial markets, different stakeholders within the purchasing organisations might derive different benefits or value from a single market offering. Thus in the 'solutions' literature (Windahl & Lakemond, 2006), for a variety of reasons, industrial customers increasingly see value in offerings based on outcomes achieved by suppliers rather than ownership of capital equipment. Similar issues arise in consumer markets, and this presents the challenge of designing new market offerings. Which parts of the offering are charged for — what Richard Normann (2001) terms the 'price carrier' – and how much is charged, is a critical question, and one closely entwined with customers' understanding of value.

Although 'solutions' might be of increasing importance in some
settings, the transfer of ownership of artefacts is still central to many business models. Furthermore, the artefact may be implicated in related episodes of access or activity. For example, although consumers buy the iPod (artefact), the offering depends on its entanglement with access to iTunes and periodic upgrades of software (activity) by the supplier.

Access-based business models see the provider retaining owner- ship of the socio-technical capacities (Gadrey, 2000) that play a part in value-creation. Mobile telephone operators, for example, have large investments in masts, IT and maintenance staff, and charge users to access their network, according to various contracts or pay-as-you-go tariffs. Ownership confers control over residual rights (Hart, 1995) and shapes incentives (Snir, 2001). It also requires effort to stabilise and define access offerings to make them tradable (Callon, Meadel, & Rabeharisoa, 2002).

Activities are perhaps what we typically have in mind when we think about a 'service'. They are concerned with what companies do for a customer as part of the market offering. Thus, as Gadrey (2000: 375) explains:

"*a service activity is an operation intended to bring about a change in the state in a reality C that is owned by the consumer B effected by provider A at the request of B in many cases in collaboration with him or her, but without leading to the production of a good that can circulate independently of medium C.*" (original emphasis)

Activities are seen as opportunities for differentiation and extra profit among firms used to an artefact-based offering (Matthyssens & Vandenbempt, 2008), but also present potential problems due to supposed inherent variability in customer requirements (Bowen & Youngdahl, 1998) and difficulties in scaling.

3.3. *Network architecture*

Almost all of the business model literature recognises the architec- ture of the business network. Several authors discuss the relationships between a focal firm and the organisations with which it transacts (Amit & Zott, 2001; Mason & Leek, 2008). According to Zott and Amit (2008: 1) "*the business model is a structural template that describes the organization of a focal firm's transactions with all of its external constituents in factor and product markets.*" Similarly, the business model concept is often defined in terms of transactions. For example, Amit and Zott (2001: 511) define business models as: "*the structure, content and governance of trans- actions*". Here we attempt briefly to explore the causes and conse- quences of network architecture, using four important dimensions: capabilities, transactions, markets and standards, and relationships.

Capabilities can be understood as the know-how that is retained, maintained and developed by an organisation over time. Clearly this has been examined in considerable depth, and from various perspectives, over the past 20 or 30 years. But we feel it is important to draw attention to the importance of capabilities in business model analysis, not least because an increasing focus on capabilities by firms has given rise to less vertically-integrated and more networked approaches that, in turn, make 'business model thinking' more useful. Most obviously, understanding the 'zero-level' (Winter, 2003) or direct capabilities of the focal firm and various network actors is a basis (although not the only one) for deciding who does what, or who could do what, in the network. This, it should be remembered, includes the customer (Langlois & Cosgel, 1998): whether a 'total solution' market offering is valuable to the customer will depend in part on their ability (or otherwise) to provide the solution for themselves. Less widely recognised are what Loasby (1998) terms 'indirect capabilities', those that relate to how a firm can access and utilise the capabilities of others within the wider business network (Araujo, Dubois, & Gadde, 2003; Araujo & Novello, 2004; D'Adderio, 2001; Mason & Leek, 2008; Teece, 2007).

Afuah (2003: 3) suggests rather baldly that "*Most firms are in business to make money, and business models are about making money*". More subtly, Seely Brown (2006: 63) suggests that business model innovation involves building the '*architecture of the revenues*'. In other words, business models necessarily involve transactions to take place between firms. According to Williamson (1985: 1), a "*transaction occurs when a good or service is transferred across a technologically separable interface. One stage of activity terminates and another begins*". If only it were that simple. Working out where and how to effect transactions can be a challenge in its own right, all the more so as we develop more complex performance-based or access-oriented market offerings (see Section 3.2). The effort involved in making transactions possible has been examined by Baldwin (Baldwin, 2008; Baldwin & Clark, 2002), who suggests that transactions are likely to occur where 'mundane transaction costs' are lowest. This is complemented by Langlois' (1999, 2002, 2006) work, which suggests that these mundane transactions costs are changed by institutional and technological innovation: hence, the 'thin interface', where a transaction can be made, shifts over time. Transaction-making technologies (Azimont & Araujo, 2007; Callon & Muniesa, 2005; Zipkin, 2006), then, can shape the development of business models.

The ease with which firms can access network counterparts' capabilities is also shaped by the existence and development of markets and standards. As markets are made and evolve, standards emerge with them. As Langlois (2004: 372) puts it:

"*A Chandlerian firm starting up today can plug into modern financial markets, modern banking, containerized shipping, Federal Express, personal computers, and the Internet without having to reinvent those stages of production itself.*"

Such standards come about through lobbying and through power plays between key firms identifying and targeting specific markets. This has two important implications for the practice of business models. First, the standards recognised by firms frame the way managers identify and pursue market opportunities. They are indicative of what might be traded and how, within any business network. Second, the notion of markets and standards might also help managers frame practices for market-making as they seek to influence and shape standards in a strategic move to influence which are adopted (Arthur, 1989). Such market standards offer opportunities for firm to specialise.

Of course, network connexions are not all about market trans- actions. Without counterposing transactions and relationships as in some simplistic way 'polar opposites', it is clear that, where firms try to do new and innovative things, (developing product, process and infrastructure technologies for example), the relationships that support such innovations can cause the boundaries of the firm to appear less clear. Araujo et al. (2003) draw on the work of Penrose (1959), Richardson (1972) and Loasby (1998) to explore the blurring of the boundaries between firms, claiming that when firms are able to develop close (sometimes embedded) working relationships with other firms in their business network, the nature of what the firm is may change; and what the firm might offer to the market might change too. Coase (1937: 388) uses the example of the Lancashire cotton industry to make his point,

"*A weaver can rent power and shop-room and can obtain looms and yarn on credit. This co-ordination of various factors of production is, however, normally carried out without the intervention of the price mechanism.*"

Thus, even if transactions are established between network counterparts, they are often complemented and indeed, enabled, by non-financial exchange and interaction. (This has, of course, been a predominant theme of the IMP literature over almost 40 years).

In all this discussion of network architecture, the dynamic and evolutionary nature of business models becomes clear. Similarly, Doganova and Eyquem-Renault (2009) claim the need to study business models in action (Latour, 1987; Schatzki, 2006) and that relationships influence how a firm's business model evolves.

4. Business models in action: the recorded sound industry

We now explore episodes in the early development of recorded sound and the business models deriving from it. The account is largely based on Dowd's discussion (Dowd, 2002).

Thomas Edison patented the phonograph in 1877. For the first time, this enabled the recording and playback of short passages of sound. The phonograph recorded sound onto a fragile, tinfoil cylinder, so recording quality was poor and the durability of the recordings was such that the sound could only be played back a few times before the cylinder wore out. At that stage Edison identified a wide range of possible applications, of which music recording was only one. Others included recording the last words of dying relatives and recording telephone conversations (the telephone having recently been invented by Alexander Graham Bell).

The first commercial use of the phonograph was through demonstration by travelling entertainers, principally for its novelty value. Edison sold the phonographs to a network of entertainers who in turn charged for attendance at demonstrations. For a short period, the entertainers made large sums of money, as did Edison through royalties and a percentage of the exhibition fees. But the novelty soon wore off with the customer.

To overcome the fragility of the tinfoil cylinder technology, wax cylinders were introduced and the next commercial use of the phonograph was as a business dictation machine. Being short of capital, Edison sold the patent for the phonograph to an entrepre- neur called Jesse Lippincott, while retaining the rights to manufac- ture. Lippincott set up a network of regional licensees who leased the machines for $40 per annum — a business model explicitly imitating that of the American Bell Telephone Company. However, it turned out that the machines were cumbersome and inconvenient to use and didn't deliver the anticipated benefits. Consequently, commercial success was limited. In desperation, some agents who had leased machines and were now losing money, created a new market offering by starting to use the phonographs to play recorded music. They set up ‘phonograph parlours’, where customers could pay a nickel to listen to a tune. This quickly became the major revenue earner and, with the development of more easily duplicat- ed, moulded wax cylinders, the sale of pre-recorded music took on much greater significance. Then, as phonograph technology im- proved, production costs and therefore prices declined, and consumers became used to the machines, it became possible for consumers to operate phonographs themselves, at home. Sales of machines and cylinders to private households then became the more significant market. At this stage, the production of media and playback equipment became separated as industry standards pertaining to playing speeds, and cylinder and then disc size became established. This was the business model for the next eighty or ninety years, albeit that phonographs were replaced by gramophones, and cylinders were replaced by discs.

Jumping to the 21st century, the recorded music industry finds
itself, once again, searching for new ways to generate revenues. The most important business model innovation, of course, is the development of downloadable MP3 files. We have a standardised format, but one that is only useful given the existence of the infrastructural technology of the internet. This gave the basic potential for a shift from an artefact-based offering (CDs and other media) to one based on access (to files on servers). The pre-eminent business model development is the one based around Apple's iTunes, which provides low-cost transactions, search, and many other facilities. Apple, paradoxically, drives this business model through artefacts — by designing and supplying aesthetically desirable, ‘cool’ MP3 players (iPods). With the arrival of iPads, Apple is now challenging established models of publishing. This demonstrates the difficulty of analysing this setting as a ‘market’ or an ‘industry’ and shows the benefits deriving from the flexibility of the business model approach.

the increasingly prevalent assumption among younger music enthusiasts that music should be free and that illegal downloads are acceptable (Anonymous, 2008), Nokia released their ‘*Comes With Music*’ range of mobile phones. Subscribers pay a significant price for the handset and, in return, have an ‘*all you can eat*’ entitlement to download unlimited music from the Nokia online music store for the period of their initial contract (12 or 18 months). Nokia's handsets did not have the appeal of Apple's iPhone. What seems critical here was the novelty of the ‘*Comes With Music*’ market offering. This was made possible by collaboration between Nokia and the four major music labels. Crucially, this market offering bears many of the hallmarks of an innovation observed in the business model literature (Chesbrough & Rosenbloom, 2002; Cusumano, 2008; Pohle & Chapman, 2006). The ‘*Comes With Music*’ offering is *inter-organisational*, being dependent upon the deal between Nokia and the major music labels; involves a shift in the *price-carrier* (Normann, 2001) from the ‘tune’ (as was the case in Apple's iTunes business model), to the purchase of the phone itself. Nokia's market offering was a response to what is in essence a technological *product* innovation presented by Apple's iPhone in 2007.

The history of the recorded music market generates three important insights for understanding the creation and practice of business models. First it shows that each of the three business model elements has different aspects (see Fig. 1). Take for example, the technology element. For Edison, creating a

frame of action around technologies meant taking into account product technology (how the phonograph worked and could be improved). Edison kept the manufacturing rights to the phonograph after he'd sold the patent because he wanted to make both process and product technology improvements. But there were many things Edison couldn't do because of the product technology and because of the lack of infrastructure technology. Apple could do things that Edison couldn't because they had different infrastructure technology and different
product technology to work with.

Second, the recorded music market vignette illustrates the complex interplay between innovations in business model technol- ogies, market offerings, and the network architectures. Edison developed a rudimentary product technology. This initially had no saleable form as an artefact — was not translated into an offering — and no business model existed, notably because no link had been forged between the product technology and a market that would value it and pay for it. Interestingly, recent developments in the industrial marketing literature have shown how managers use network pictures to identify actors and their connexions as they go about working out how inter-functional and inter-firm work might be performed (Leek & Mason, 2010). Such a practice would rep- resent the translation process that managers work through as they go from knowing the technical solution they want to deliver (in Edison's case, a machine to play back recorded sound), to creating a market offering that the consumer is willing to pay for and is pack- aged and delivered to the market.
How then might network pictures work as part of the practice of
business modelling? Network pictures have been understood as the representations of "*views of the network held by participants in that network*" and it has been argued that inevitably, "*different companies and individuals within them will each have different pictures of the extent, content and characteristics of the network.*" (Ford, Gadde, Håkansson, & Snehota, 2002: 176). Similarly, Ramos, Ford, and Naude (2005) understand network pictures as a representational technique that illustrates the views of the actors. Two interesting observations are made here. One is that the network picture is a representation and as such, is a static '*picture*' of an understanding held by an individual at a single point in time. Henneberg, Mouzas, and Naude (2006) argue that managers draw on and assimilate multiple network pictures into their own network pictures. These mega network pictures then shape managers' decision making. In other words, they are performative; they don't just *reflect* reality but *intervene* in it (Callon, 1998b). Thus observation that network pictures are a '*technique*' is an important one. It means that the way managers produce and use network pictures matters to the way they develop and perform their business models. By taking this interpretation seriously we are forced to rethink what the technique of *network picturing* might be. As a procedure to accomplish a specific task, what might network pictures accomplish and how? The practice of producing network pictures is a process of diagramming, a working out of not only '*what is*', but '*what needs to be*' in order to achieve a specified intent. In this sense, the process of drawing a network picture is a form of knowing-in-practice. The knowing becomes apparent only through the act of drawing it and it is only when it can't be drawn that the artist knows what he/she doesn't know. Thus network pictures may be thought of as a diagramming technique that both maps and constructs the complex interactions between individuals working to entangle technologies and markets as they develop and perform the network architecture.
Leek and Mason (2010) give some insights into how through the
process of diagramming, network pictures were produced. Employees began to know where organisational boundaries presented bottle necks, where work flows were being stopped and where the system was not working and had broken down. The practice of diagramming network pictures (from different perspectives of actors with different roles) revealed different types of problems and challenges. Edison was famous for his '*back of the envelope*' drawings and diagrams (though these were mostly of his inventions and machines). He understood the value of diagramming and of networking to bring his ideas to life. He invested heavily in developing his network architecture, iterative- ly exploring new connexions and possibilities to make his ideas work both technically and commercially.
Birkinshaw et al.'s (2008) observations on management innova-
tion more generally, make the point that there is no particular sequence to the innovation of business model elements. Management practices that constitute business models require a different emphasis on technologies, market offerings and network architecture — one that shifts from element to element over time, varies by market, and is affected by the interactions of the practices associated with other components within the business model framework (Miller, Olleros, & Molinie, 2008).
Third, Edison develops his business model through interactions with other businesses and institutions. His business model is co- created and changed by other actors as they enter the network and take actions of their own. The first offering that Edison delineated was the performance through his network

connexion with a travelling showman. Here Edison's business model is created in conjunction with the entertainer's business model so that elements overlap in a complementary way. Edison attached the product technology to an existing distribution network (the entertainers) and market form (pay per performance). Edison worked with the entertainer to transfer capabilities, i.e. he taught the entertainer how to use the equipment. A revenue model involving machine sales, fees and royalties enabled Edison to make money for a while.

Incremental product and process innovation led to a more reliable machine. The largely unsuccessful business model of leasing machines for use in business dictation gave way to the innovation (recorded music) that came from within the distribution network proved profitable. Two offerings were developed and existed in parallel: (i) the service-based phonograph parlour and, (ii) the product-based phonograph-and-recording sales offering. Each had a different business model. The first depended on the development of transac- tion-making technology in the form of coin-operation mechanisms; the second made use of the emerging infrastructural technology of freight distribution. Thus the history begins with an emphasis on technology innovation, shifts to innovation in the market offering i.e. business dictation, then network architecture innovation — the adoption of a network architecture from elsewhere. From that network architecture came a subsequent innovation in the market offering – recorded music – that eventually made money. This, in turn, drove volume and the incremental product and process innovation that made full industrialisation possible. The business dictation market offering might be seen as ‘transitional object’ (de Geus, 1988) – one which, although eventually discarded, was an essential step on the way to the more successful outcome because it created the network from which the recorded music offering and business model emerged. In sum, the practice of business models is centred across three elements: each is broken down to explore the theoretical basis and the practices that relate and entangle them both within the firm and across the business network. We argue that an understanding of these elements and how they relate to one another is essential to an understanding of management innovation. We suggest that the management of business models is about shifting activity and emphasis from one element to another, and understanding how such shifts may be influenced by other network actors and become important competitive moves in themselves. Using the business model framework (Fig. 1) we are able to see how the different dimensions of each element help managers make practical judge- ments on when and where to focus their efforts at different points both within the firm and (sometimes simultaneously) by enrolling network actors in their activities and strategies.

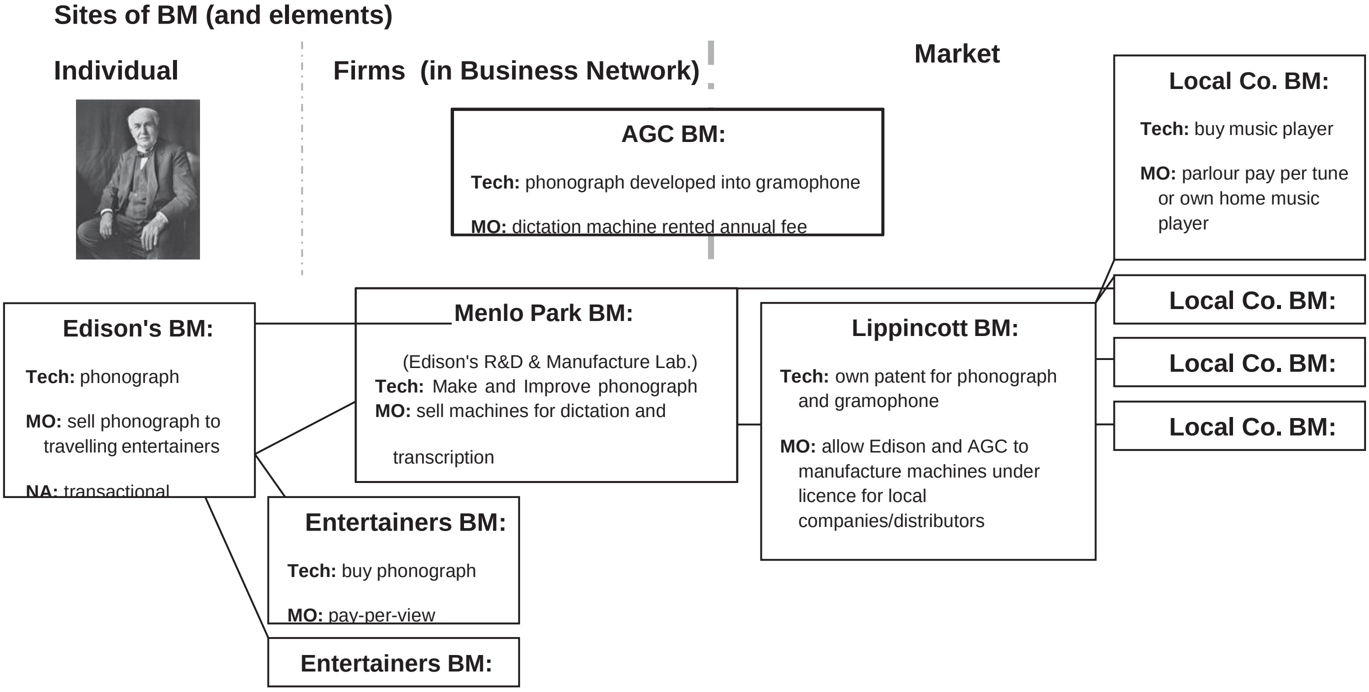
5. The sites of business models: a networks perspective

The historical view of the recorded sound industry has allowed us to see change over time (Fig. 3). It allows us to claim the existence of ‘a recorded sound market’. When Edison set out, there was no recorded sound industry or market; and no recorded music market. What is of interest is the transformation of an individual's idea into the business model, whose elements mix and co-evolve with the ideas of others in the business network and then take on multiple sites until a market forms.

Edison has a technology that he transforms into a market offering (pay-per-view). At first he uses ‘entertainers’ as distributors to create a network architecture. This is his business model. He may have articulated this in the form of a material plan, ideas on the back of an envelope (Edison was known as a prolific note-taker) or the business model may purely have been an idea in Edison's head. We don't know. But what is clear, is that as soon as external actors (distributors) became involved in the practices of the business, the business model took instantiations in other sites — in that of the distributors – in so far as sharing an understanding of what the market might be – the dictation/transcription market or the music market. In 1876 Edison opened a substantial research lab in Menlo Park, New Jersey. The Lab employed over a hundred people and this important resource allowed incremental technological development and produc- tion of his phonograph. When Edison started to run out of money he sold the Patent to Lippincott (who had also bought the gramophone patent from the AGC Company — a competing product). Lippincott bought all the patents for the competing technologies. His network architecture allowed him to act on the observations of the ‘local companies’ that the music market represented a bigger market opportunity than the dictation and transcription market. Lippincott and Edison between them had enough control of the network to introduce market standards.

What we see in Fig. 3 (albeit simply), is the way different actors make and shape the business model at different times; and as such, how some elements of the business model remain stable but move into different constellations; in different (and multiple) sites, to form

markets. Thus, different actors have more or less influence on the business model and the market at different times. Through this observation it seems that business models (and their elements) have multiple (and *multiplying*) sites over time (Schatzki, 2005).
Though the linearity implied by Fig. 3 must be regarded with extreme caution, the historical analysis gives us some clues to as to the practices that make business models happen.



6. The practices that make business models happen

Business models can be understood as a framing device for influencing and shaping collective and individual action. Morris, Schindehutte, and Allen (2005) identify three distinct levels at which business models happen; (i) the strategic level — where individuals share ideas about what they think the firm should achieve,
(ii) operational level — how the different actors might go about making the organisational goals happen, and (iii) the level of individual transactions or economic exchanges — what the business model means for the actions of individuals dealing with any specific exchange. The theory of social practices helps us understand the interconnected-ness of these multiple levels. The connectivity between actors (with bodies that perform activities and minds that shape performances), agency (the power they have to shape action), knowledge and understanding (what actors think they should do) can be understood as the practices that form structures of action. We argue that business models might also usefully be understood as bundles of practices that become institutionalised in the performance of actors as individuals, in firms, in business networks and in markets; across multiple sites over time (Schatzki, 2005, 2006).
Practice theory is a purpose-oriented theory of action (Latour, 2005). Reckwitz (2002: 249) defines a practice as "*a routinized type of behaviour which consists of several elements, interconnected to one another: forms of bodily activities, forms of mental activities, 'things' and their use, a background knowledge in the form of understanding, know- how, states of emotion and motivational knowledge.*" These practices are then translated into performances (what people actually do, with what, with whom, when and how). Thus, practices form structures of action in the same way that elaborated business models do (Doganova & Eyquem-Renault, 2009). What is particularly insightful and helpful in building an understanding of the emergent business model literature through a practice theory lens, is the notion that not only do practices link what people think with the way they act, (and with what, whom and where) but also that practices are by nature routinized types of behaviour which consist of several interconnected elements. This helps us see how practices help managers understand and perform the business model process. Edison knew that he needed to work with entertainers as his route to a potential market. He translated this part of the model into practices that involved showing entertainers how to operate and maintain the phonographs. To train several entertainers systematically

he would need to create a set of routines or instructions; this would also enable others to practice ‘phonograph training’ too. But as the entertainers experienced problems with the fragile foil cylinders, Edison was prompted to further develop this technology. Then, a different bundle of practices and routines (product testing, materials experimentation) were kicked into action. What Edison was particularly good at was creating connecting practices between the elements. Edison used his market knowledge from the entertainer to inform the product development practices. The business modelling process is not linear. It is precisely because the associated, boundary-spanning practices interconnect, that business models iteratively influence, shape and are shaped by the market as it happens (Schatzki, 2006).

If business models are more than just descriptions of what a business does, they must have some sort of performative power to shape and influence the actions of others. We argue that business models, embedded as rules-for-action in PowerPoint slides, reports, targets and strategy documents, act as framing devices. Such business model artefacts are the ‘ostensive’ aspects of the practices performed by individuals, in firms, between firms (in networks), and in markets (Feldman & Pentland, 2003).

Seen as a bundle of practices, business models can be understood as generative and continuously emerging systems, characterised by structure and dynamics. But equally important, they are performative in nature; they have agency by framing the way the business (and by implication the market) is developed and grown (Doganova & Eyquem-Renault, 2009). The performative nature of models and representations of markets are increasingly recognised in the marketing literature (see for example, Azimont & Araujo, 2010; Harrison & Kjellberg, 2010). The point then is that business models are important to the institutions within which they are embedded. Callon (1998a, 1998b) and MacK- enzie's (2006) observations that models are an intrinsic part of markets (rather than being external to them), has implications for business model theory;

“*in fact there is no real separation between* ‘*market models*’ *on one side and* ‘*market practices*’ *on the other: market models are performed in practice. Models form a crucial part of markets; they are not purely detached external representations or virtual abstrac- tions (cf. Miller, 1998 in Holm, 2002) but engines that make the markets tick.*” (D'Adderio, 2008: 775).

Business models are not just a description of something that rests outside of the business but are a constituent part of it. Further, as the business itself is embedded in a market, business models need to be understood as constituent parts of markets too (Callon, 1998a; Callon, Millo, & Muniesa, 2007; MacKenzie, 2006; MacKenzie & Millo, 2003; Schatzki, 2005).

Business models can provide a shared understanding of routinized action as embedded in collective cognitive and symbolic structures of shared knowledge. Business models enable a socially shared way of ascribing meaning to the world. They explain the practices that constitute the activities of a business and its relationship to other actors in business networks and markets.

1. Conclusions and implications

This paper set out to explore the sites and practices of business models. We have argued that the value of business models lies in their ability to frame action and reveal connexions between those actions, across multiple levels of analysis. We seek here to connect micro to the macro level practices: from individual actions of front-line workers to the market level actions of networked organisations. We argue that it is through the practice of business models that the sites of business models proliferate and the dynamics of business models allow them to evolve. In so doing, the paper offers three key contributions. First, it presents a business model framework through theoretical synthesis that identifies what business models are. Drawing together concepts from technology and innovation studies, industrial marketing, operations and service strategy, and evolution- ary economics, the paper provides a much deeper understanding of what business models are and how they are theorised. The key contribution of the business model framework lies in the examination of the underlying theory of the three business model elements. We use this theory to identify multiple dimensions of each element and the connexions between them. As Van Maanen, Sörensen, and Mitchell (2007) explain so compellingly, theory and method are deeply inter-connected. Hence, if we are to maintain the multi-level approach to business model analysis that makes it so effective, we must resist the temptation to fix it within any one established literature. Economists study industries, innovation scholars study technologies, strategy researchers study firms: all have their part to play in explaining the phenomena of interest here, but there is a risk that the adoption of any one theoretical grounding will unduly restrict the framing of a research programme. In this way, business model theory stands to contribute to management practice by offering a framework that, when populated by managers, may help frame purpose-oriented action (Latour, 2005). Business models may adopt multiple manifestations in the form of PowerPoint presentations, strategy documents or targets used for directing action of the business and even the businesses of their collaborative partners, within any given market context (Geiger & Finch, 2009).

Second, the business model framework presented here offers an analytical framework through which managers can seek to make sense of and share understanding between individuals, groups and organisations of what the situation is in order to 'work out' what is to be done. Such framing of action is consistent with understanding not only what business models are, but what they do. That is, how they become embedded in markets, becoming a constituent part of what the market and what the firm is and does. This recognises that the '*doing*' of business models is dependent on interactions with others in the market-place (Håkansson, 1982) and that the types of practices and spaces that form markets (and the models that describe them) are likely to be contingent, and context specific (Araujo, 2007). We find considerable benefit in using the framework, to understand how managers '*do*' business models in ways that balance change and stability; innovation and risk. The framework is flexible in the sense that, being non-sequential, analysis can begin in any element or elements, depending on current concerns or opportunities. It also seems that there is considerable path dependence in the susceptibility of the various elements to innovation, as well as unanticipated dynamic interconnections between elements. In this way, business models are understood to have multiplying sites over time (Schatzki, 2005).

Third, by understanding business models as a framing device for programmes of action, we explore the dynamic nature of business models as well as attributing agency to them; positioning them as a constituent part of any business that iteratively influences and is influenced by firm, inter-firm and market practices (Hagberg & Kjellberg, 2010). In this sense, business models might be understood as bundles of interconnecting practices that evolve with the context within which they are practiced — but that in turn influence and shape the context. Thus, changes in technology practices are likely to lead to changes in network architecture and so on (see for example, Geiger & Finch, 2009). In this way, the business model framework identifies different types of management practices that drive the development of business models in manufacturing and service settings; technology practices; market offering practices and network architecture prac- tices. But, in the process of business these practices interconnect and enable the business to operate as a whole, making and shaping markets.

In sum, the paper represents one of the first attempts to link a conceptualisation of what business models are with what they do, through an examination of the theory behind business models in parallel with an historical analysis of the recorded music industry. The paper suggests that what managers do with and to business models as they develop is a central part of management innovation practice (Birkinshaw et al., 2008). However, this is not a sustained empirical study. We need in-depth, longitudinal, ethnographic studies to help us understand how managers develop, represent, translate and transform business models through situated management practice. Such studies would shed light on the managerial tools used to represent and circulate knowledge within and between organisations, industries and across multiple geographies as managers zoom out and take the macro lens on their business and markets. Similarly, such studies stand to generate insights that might help international managers successfully translate a single business model from one geography to another while embracing (rather than ignoring) the heterogeneity of markets. This research would foreground managers zooming in to focus on the performance and practices of specific, individual markets (Nicolini, 2010). Future research might also focus on generating insights into the proliferation of business models across business networks as technologies, market offerings and network architectures become shared, overlapping and interlinked. For now, it seems that we are just beginning to understand the practices of business models and their agency in making markets, but there is much work to be done.

Acknowledgement

The authors would like to thank all the participants at workshops, seminars and conferences who have provided us with valuable feedback on earlier versions of this work including the IMP group; POMS, Cass Business School, Imperial College London, WBS, AIM Fellows.

Katy Mason gratefully acknowledges financial support in the form of an AIM Research Fellowship in Management Practices [grant no. RES-331-27-0049].

Martin Spring gratefully acknowledges financial support in the form of an AIM Research Fellowship in Services [grant no. RES-331- 27-0049].

References

Afuah, A. (2003). *Business Models: A Strategic Management Approach.* Boston and London: McGraw-Hill/Irwin.
Amit, R., & Zott, C. (2001). Value creation in e-business. *Strategic Management Journal, 22*(6/7), 493–520.
Anderson, J. C., & Narus, J. A. (1992). Business marketing: Understand what customers value. *Harvard Business Review, 76*(6), 53–65.
Anonymous (2008). Cross-subsidised subscriptions offer a promising new model-if the sums add up. *Economist* October 2nd: 15–16.
Araujo, L. (2007). Markets, market-making and marketing. *Marketing Theory*, *7*(3), 221–226.
Araujo, L., Dubois, A., & Gadde, L. -E. (2003). The multiple boundaries of the firm. *Journal of Management Studies*, *40*(5), 1255–1277.
Araujo, L., & Novello, S. (2004). Sticky knowledge: Barriers to knowing in the firm. *Management Learning*, *35*(1), 90–92.
Araujo, L., & Spring, M. (2006). Services, products, and the institutional structure of production. *Industrial Marketing Management*, *35*(7), 797–805.
Arth
ur, W. B. (1989). Competing technologies, increasing returns, and lock-in by historical events. *The Economic Journal*, *99*, 116–131.
Axelsson, B., & Easton, G. (1992). *Industrial Networks: A New View of Reality.* London: Routledge.
Azimont, F., & Araujo, L. (2007). Category reviews as market-shaping events. *Industrial Marketing Management*, *36*(7), 849–860.
Azimont, F., & Araujo, L. (2010). The making of a petrol station and the “on-the-move consumer”: Classification devices and the shaping of markets. *Industrial Marketing Management*, *39*(6), 1010–1018.
Baldwin, C. Y. (2008). Where do transactions come from? Modularity, transactions, and the boundaries of firms. *Industrial and Corporate Change*, *17*(1), 155–195.
Baldwin, C. Y., & Clark, K. B. (2002). *Where do transactions come from?* A perspective from Engineering Design: Harvard Business School Working Paper No. 02–33.
Birkinshaw, J., Bessant, J., & Delbridge, R. (2007). Finding, forming, and performing: Creating networks for discontinuous innovation. *California Management Review*, *49*, 67–83.
Birkinshaw, J., Hamel, G., & Mol, M. J. (2008). Management innovation. *Academy of Management Review*, *33*(4), 825–845.
Bowen, D. E., & Youngdahl, W. E. (1998). “Lean service”: In defense of a production-line approach. *Journal of Service Management*, *9*(3), 207–225.
Callon, M. (Ed.). (1991). *Techno-economic Networks and Irreversibility*. London: Routledge.
Callon, M. (1998a). *Introduction: The embeddedness of Economic Markets in Economics' in the Laws of Markets.* Oxford: Basil Blackwell.
Callon, M. (1998b). *The Laws of Markets.* Oxford: Basil Blackwell.
Callon, M., Meadel, C., & Rabeharisoa, V. (2002). The economy of qualities. *Economy and Society*, *31*(2), 194–217.
Callon, M., Millo, Y., & Muniesa, F. (2007). *Market Devices.* Oxford: Basil Blackwell.
Callon, M., & Muniesa, F. (2005). Peripheral vision: Economic markets as calculative collective devices. *Organisation Studies*, *26*(8), 1229–1250.
Casadesus-Masanell, R., & Ricart, J. E. (2010). From strategy to business models and onto tactics. *Long Range Planning*, *43*(2–3), 195–215.
Chesbrough, H., & Rosenbloom, R. S. (2002). The role of the business model in capturing value from innovation: Evidence from Xerox Corporation's Technology Spin-off Companies. *Industrial and Corporate Change*, *11*, 529–555.
Chesbrough, H., & Schwartz, K. (2007). Innovating business models with co- development partnerships. *Research Technology Management*, *50*(1), 55–59.
Christensen, C. (2000). Rappa, M. A. (2004). The utility business model and the future of computing services.
IBM Systems Journal, *43*(1), 32–42.
Reckwitz, A. (2002). Toward a theory of social practices: A development in culturalist theorizing. *European Journal of Social Theory*, *5*(2), 243–263.
Richardson, G. B. (1972). The organisation of industry. *The Economic Journal*, *82*(327), 883–896.
Schatzki, T. R. (2005). Peripheral vision: The sites of organizations. *Organization Studies*, *26*(3), 465–484.

Schatzki, T. R. (2006). On organizations as they happen. *Organization Studies*, *27*(12), 1863–1873.
Seely Brown, J. (2006). The business model: Connecting internal and external innovation. In H. W. Chesbrough (Ed.), *Open Innovation: The New Imperative for Creating and Profiting from Technology: 63*. MA: Harvard Business School Press.
Snir, E. (2001). Liability as a catalyst for product stewardship. *Production and Operations Management*, *10*(2), 190–206.
Stump, R. L., Athaide, G. A., & Joshi, A. W. (2002). Managing seller-buyer new product development relationships for customized products: A contingency model based on transaction cost analysis and empirical test. *Journal of Product Innovation Management*, *19*(6), 439–454.
Teece, D. J. (1987). *The Competitive Challenge: Strategy for Industrial Innovation and Renewal: Ballinger*.
Teece, D. J. (2007). Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal*, *28*(13), 1319–1350.
Timmers, P. (1999). *Electronic Commerce*. Chichester: John Wiley.
Twiss, B. (1992). *Managing Technological Innovation* (4th ed.). London: Pitman Publishing.
Utterback, J. M., & Abernathy, W. J. (1975). A dynamic model of process and product innovation. *Omega*, *3*(6), 639–656.
Van Maanen, J., Sörensen, J. B., & Mitchell, T. R. (2007). The interplay between theory and method. *Academy of Management Review*, *32*(4), 1145–1154.
Weill, P., & Vitale, M. (2001). *Place to Space: Moving to eBusiness Models*. Boston: Harvard Business School Publishing Corporation.
Williamson, O. E. (1985). *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. New York: The Free Press.
Windahl, C., & Lakemond, N. (2006). Developing integrated solutions: The importance of relationships within the network. *Industrial Marketing Management*, *35*(7), 806–818.
Winter, S. G. (2003). Understanding dynamic capabilities. *Strategic Management Journal*, *24*(10), 991–995.
Zipkin, P. (2006). OM forum the best things in life were free: On the technology of transactions. *Manufacturing & Service Operations Management*, *8*(4), 321–329.
Zott, C., & Amit, R. (2007). Business model design and the performance of entrepreneurial firms. *Organization Science*, *18*(2), 181–199.
Zott, C., & Amit, R. (2008). The fit between product market strategy and business model: Implications for firm performance. *Strategic Management Journal*, *29*(1), 1–26.

Katy Mason is a Senior Lecturer at Lancaster University Management School and an AIM Management Practices Fellow. Grounded in industrial markets her work focuses on the work managers do to make and shape markets. Her research has been published in Industrial Marketing Management, Journal of Management Studies, Long Range Planning and European Journal of Marketing.

Martin Spring is a Senior Lecturer at Lancaster University Management School and an AIM Services Fellow. His work focuses on the development of complex service offerings in industrial markets and has been published in Industrial Marketing Management, International Journal of Operations and Production Management, International Journal of Logistics Management, and Journal of Purchasing and Supply Management.

***

9

Marketing Strategy of the Small Business Adaptation to Quarantine Limitations in the Sphere of Trade Entrepreneurship

Manoj Kumar Behera

Abstract

The article considers the peculiarities of developing a marketing strategy for the adaptation of small businesses to quarantine restrictions in the field of commercial entrepreneurship. The importance of reformatting the existing marketing strategy in connection with the change of key conditions of trade activity with the introduction of quarantine restrictions due to the covid- 19 virus epidemic is substantiated. Quarantine restrictions and the temporary introduction of lockdown in various countries around the world, including Ukraine, have not only caused a crisis for small businesses. But they became a shock therapy and accelerated the digitalization of retail. Trends in digitalization and development of digital infrastructure allow both to adapt the structures of commercial entrepreneurship to the current conditions, and set directions for development in the long run. Particular attention in the article is paid to changing the business model and automation of sales processes based on the introduction of vending. The preconditions and existing experience of vending in Ukraine are analyzed. An outline of the business model of the project for the sale of goods through vending machines has been developed.

Key words:

marketing strategy, digitalization, digital consumer behavior, trade entrepreneurship, retail, quarantine restrictions, covid-19, vending.

1. Introduction

Marketing development strategy is one of the main factors of stability and success in the field of trade entrepreneurship. However, due to the unusual for the world business conditions, in which companies have been since 2020, the principles of classical marketing have proved ineffective, and in some cases - not working. An important aspect of the implementation of marketing strategy are the mechanisms of interaction of the three components of sustainable development:

- stabilization and economic development of trade entrepreneurship;
- satisfaction of social needs and social responsibility;
- ecological and epidemiological safety of trade entrepreneurship, ensuring energy saving and energy efficiency in the implementation of marketing development strategy.

Taking into account the global trend of digitalization is becoming not only mandatory, but also a factor in surviving quarantine restrictions. Studies of consumer behavior show that it is becoming increasingly digital. These trends have only intensified with the introduction of quarantine restrictions, as digital channels are the only way to connect with the outside world in lockdown and isolation. Accordingly, more and more people are meeting their consumer needs through the Internet, and the increase in online shopping is no exception.

The aim of the article is to study marketing strategy adaptation of small business in the field of trade entrepreneurship in the face of the constraints caused by the Covid-19.

2. Literature review

Small business is an activator of sectoral transformations in the economy that creates an effective competitive environment and additional revenues to the budgets of all levels. In today's pandemic period, small business needs to find ways to adapt to quarantine restrictions and develop appropriate marketing strategies. Many scientific researches of famous scientists are devoted to the issues of small business development, among which: Abramova A. (2021) [1]; Adeola O. (2021[2]; Akpan I. (2021) [3]; Berezina A. (2021) [4]; Burov V.(2021) [5]; Derhaliuk M. (2021) [6]; Fedyshyn M. (2019)[7]; Fuchs K. (2021) [8]; Grigoraș-Ichim C. (2018) [9];Istyarini W. (2020) [10]; Ivanova T. (2021) [11]; Butko M.(2016) [12]; Kublitska O. (2021) [13]; Kholiavko N.(2020) [14]; Grosu V. (2021) [15]; Korneeva E. (2021)[16]; Marrucci L. (2021) [17]; Matkovskaya Y. (2021)[18]; Meramveliotakis G. (2021) [19];Ostrovskiy V.(2021) [20]; Warsofsky N. (2021) [21];Pitayachaval P. (2021) [22]; Rakhimova S. (2021) [23];

Manoj Kumar Behera, Asst. Prof. Global Institue of Management, Bhubaneswar

28];
Tulchinskiy R. (2021) [29]; Verchenko Y. (2021) [30];Vovk O. (2021) [31]; Yaremovich P. (2021) [32];
Zakharin S. (2021) [33] and others.
According to the study [28], the authors use an approach to content analysis to investigate the implementation of Islamic marketing ethics in thedissemination of business advertising. The study found that advertising of more than 90% of entrepreneurs meetsthe basic principles of Islamic marketing ethics.
In order to increase the activity and increase thenumber of small businesses, according to the authors [10], it is necessary to introduce digital media to increase their sales. Scientists identify problematic issues, including theproblem of choosing the most effective media. In this article, the authors explore the most effective digital media(marketplace) for marketing media businesses.
The authors [21] argue that in today's world theimportance of small and medium-sized businesses in the structure of national economies of most countries is growing. According to scientists, SMEs, which are characterized by flexibility and ability to adapt, as well asquickly reorganize in the face of modern challenges, are the basis and guarantee of accelerated socio-economic growth.
The article [19] is based on the opinion that small business is the engine of wealth and prosperity of the country. The authors consider the existence of a significantshare of small business in the Greek economy as a structural barrier to economic growth and prosperity. According to the study, without proper support from the state, only those entrepreneurs who are quite successful inthe market will be able to survive in the market, and the vast majority of small firms will leave the market.
The purpose of the article [30] is to analyze the activities of small business confectioneries and justify theneed to adjust the marketing strategy in modern conditions. The authors propose strategies for the development of small businesses in the confectioneryindustry, developed and substantiated a systematic approach to assessing strategic development.
The study [5] analyzes the development of small business in the construction industry and examines government mechanisms to support it through theoperation of business networks. As a result of the study, scientists eradicate the problems of the business structuresof the construction industry and predict the possible consequences of their activities in the shadow sector of the economy. It is proved that small business is a driver of growth of socio-economic development of the region.
The purpose of the article [22] was to study the current state of factors in the development of small and medium enterprises in northeastern Thailand. Researchersanalyzed and investigated possible measures for the development of small and medium enterprises. The authors note that the national development strategy until 2037 provides for economic development based on modern entrepreneurs and the creation of smart entrepreneurs; providing access to information about financial services, market, data; adjusting the role of entrepreneurs and public institutions and opportunities foraccess to public services.
Researchers [16] are exploring the role of small business in promoting sustainable development through itsactions, public and social consciousness and responsibility. The authors proved that small and medium-sized enterprises can be a decisive force in the fight against climate change and the promotion of environmental thinking, which will directly affect the achievement of sustainable development goals.
The aim of the research [2] is to study the critical factors that contribute to the development of small business and directly affect the achievement of the UN SDGs in the Nigerian market using the Lucie model. The authors of the study claim that the results of their work will help entrepreneurs to avoid failures and achieve UN SDC 1, 2, 8 and 10. Scientists have proven the global validity of the Lucier model, the use of which is relevant in both emerging and already developed markets.
In the article [24], the authors prove that domestic and global information and communication resources in combination with digital tools help to create conditions forsuccessful online transformation of small, micro, individual and family businesses and self-employed in thedistribution sector on single digital platforms. According to the authors, the C2C market, which is based on global digital platforms, is an effective method of online transformation of business structures.

3. Results

Today, it is extremely necessary for companies in thefield of trade to rethink the principles of marketing, transform the existing business model, and identify the dominants of this process, which are due to current globaltrends (Fig. 1).
The indicator of "digital maturity" of the client has become one of the main criteria for making strategic marketing decisions in the field of commercial entrepreneurship. Factors that contribute to the development of this characteristic should be included in the marketing strategy, and the directions of digitalizationof retail are shown in Fig. 2.

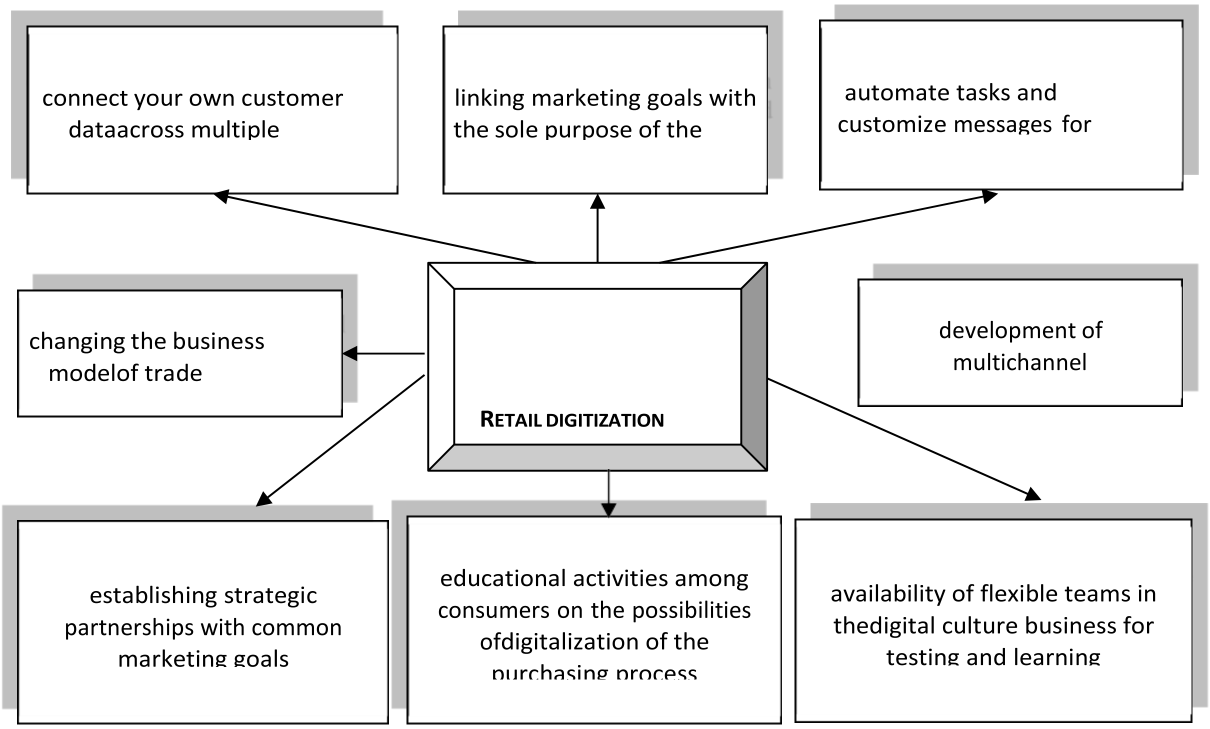


Fig. 2 Factors of digitalization in the formation of marketing strategy of commercial entrepreneurship Source: compiled by the authors.

Consider one of the areas of change in the business model of commercial entrepreneurship and automation ofsales processes based on the introduction of vending. Thistype of business model in the field of retail has long beenimplemented in world practice, and with the introduction of quarantine restrictions and the concern of all participants in the trade process for epidemiological safety, is only gaining momentum. Unfortunately, the Ukrainian vending market is only developing and there are very few companies working in this field. This market allows small businesses to master itmore freely without fear of obstacles that are mostly created by powerful companies. The main representatives of Ukrainian vending companies are listed in Table 1.

Table 1: Characteristics of the leading Ukrainian brands in the industry

Brand	**Logotype**	**Brief description**	**Production facilities**
TM UniPay		Intelligent Vending Systems LLC, UniPay TM is a company that has beensuccessfully implementing vending technologies since 2008. The company specializes in the development of a universal electronic platform, which reduces the time of designing a new vending machine inthe shortest possible time. The company operates in a closed technological cycle	Installed terminals: more than 1000 payment; more than 360 for water; more than 125 parking systems and parking meters.
VENDIBOARD		VENDIBOARD - new generation vending machines that will sell yourproducts. We create equipment and software for automated trading.	No data available
"Wash-Ka!"		LLC "SPS Postiray-Ka!" - a new type of vending business - organizationof self-service laundry points based on the company's equipment.	230 washing machines in Kyiv; It is also located in other cities of Ukraine and

			abroad.
GWater		GWater is a manufacturer of vending machines for drinking water.	413 submachine guns are located in 49 cities of Ukraine; has 152 partners
AVANGARD		AVANGARD is a manufacturer of vending equipment in Ukraine. AVANGARD is a company with a full cycle of metal processing, powder coating and numerical control machines. Production quality processes at the plant are confirmed by international certificates ISO, CE. To solve the complex problems of retail automation, we have combined an individual design approach, a strong engineering base and high-tech full-cycle production. 18 years of production experience has made us experts in the field of vending. AVANGARD is a member of the European Vending Association EVA.	20457 devices were produced; 648 customers in 9 countries

Source: developed by the authors based on the source [34-37].

According to the information received, it is very difficult to make a top among Ukrainian vending companies. The reason is that doing business in this business, namely trading through vending machines, refers to such an economic activity as 47.99 "other types of retail trade outside stores", which does not allow to single out trade through vending machines. Consumers are the main judges of the brand; it is their attitude to a particular brand reflects its value to society. Knowledge of the types of decisions and patterns of consumer behavior to a particular brand characterizes its position in the market. Types of decisions and models of consumer behavior of Ukrainian brands are shown in Table 2.

Table 2: Types of decisions and patterns of consumer behavior of brand products

Brand	Types of purchasing decisions	Models of consumer behavior according to the duration of decision-making
TM UniPay VENDIBOARD AVANGARD	From the business side: - thought out (cognitive). From the end user: - thought out (cognitive). - reflex; - impulsive; - partially thought out.	From the business side: - a long process from the end user: - limited process; - instant purchase.
"Wash-Ka!"	From the business side: - thought out (cognitive). From the end user: - thought out (cognitive); - reflex; - impulsive;	
GWater	From the business side: - thought out (cognitive). From the end user: - reflex; - impulsive; - partially thought out.	

Source: developed by the authors.

Because vending machines are a specific product used by both businesses for their business and end users, their solutions and behaviors differ. It is very difficult to single out certain emotional and other factors that lead to a purchase, because a huge number of goods and services are sold through trade devices. One thing can be said, every decision and pattern of behavior depends on the typeof apparatus and goods or services that are implemented through it. This applies to the brands TM UniPay, VENDIBOARD and AVANGARD because they are engaged in the production of devices in various fields.

The brands "Wash-Ka!" and GWater are one line of business and identify the types of consumer decisions easier.

In the brand "Wash-Ka!" all consumers mostly make informed decisions, because to use washing machines youneed to prepare in advance. Exceptions are possible in thedirection of impulsive action due to certain circumstances(dry clothes after rain or wash dirty clothes without running home, etc.).

In the GWater brand, all consumers make spontaneous decisions based on a situation or habit. This isdue to the fact that the company sells water and buys it mostly if you want to drink. Because of this, consumers donot take into account most of the criteria by which other goods are purchased (price, size, volume, taste, etc.).

On the basis of the analysis of the market of brands ofvending machines the factors of influence on volumes of demand of production and their characteristics are defined.The obtained data are shown in table 3.

Table 3: Factors influencing the demand for products

Influencing factors	
Internal	**External**
- quality; - functionality; - related services; - maintenance, its quality and speed; - price;	- positioning of the enterprise on the market; - average level of wages; - tax policy of the state; - number of competitors; - social and economic condition of the population;
- innovation of the used technologies; - product innovation; - qualification of engineering and technical personnel; - effectiveness of marketing activities; - ease of use.	- average market price per 1 m2 of leased space; - state of the electricity market; - state policy on small and medium business; - average market price per 1 Kv of electricity; - interest of citizens in the use of vending machines; - requirements of citizens to vending machines.

Source: developed by the authors.

Depending on the ratio of supply and demand for a particular product in the market there are two opposite situations: "seller's market" and "buyer's market". At the same time, the market is likely to have a relative balance of supply and demand. An indicator of the degree of perfection of the market is the equilibrium price for a particular product, for which there is no shortage or surplus. The sooner it is installed, the more perfect the market is.

On the basis of the analysis of the market of brands ofvending machines the factors of influence on volumes of demand of production are defined and their characteristicsare given. The research results are shown in Figure 3.

According to Figure 3, we can conclude that the market is in a state of advantage of the "Seller's Market". This situation allows companies to dictate their market conditions.

Despite the fact that the indicators of the domestic market for trade through vending machines to the currentstate can not be determined, it is possible to obtain information on exports / imports of these devices to Ukraine. This is possible because in external activities thedevices are under the code UKTZED 8476 "VendingMachines".

Analyzing the statistical data from 2011 to 2019, it was found that the balance in 2011 amounted to -2362 thousand dollars. USA, in 2015 amounted to -1317 thousand dollars.USA. The reason for this was most likely that the country began to change its direction towards Europe and this, in turn, led to a change in economic and political situation. However, in 2017 the balance increased to a record -3886 thousand dollars. USA, which was the worst indicator for the analyzed period of years. In 2019, the balance decreasedits negative value to -3479 thousand dollars. USA, which indicates a slight but still improving economic situation [38].Negative indicators indicate the lack of necessary vending machines in the Ukrainian market, or the lack of their competitive advantages over similar devices from foreign manufacturers.

Based on the data on the total volume of imports andexports in terms of commodity items, a study of statistical data was conducted to determine the main counterpartycountries.

Analyzing the statistics of Ukraine's Foreign Trade for 2011-2019, it was found that for the period from 2011 to 2014 one of the main contractors of imports of goods were the Russian Federation (share 21.79-39.78%) and Italy (share 41, 09-50.80%) and among exporters the Russian Federation (share 33.53-56.02%) and Canada (share 19.67-47.12%). In 2014, the indicators of imports and exports with the Russian Federation decreased (to 6.67%and 14.82%, respectively) and imports from Italy and exports from Canada, on the contrary, increased (69.69% and 37.19%, respectively). The reason is the war in eastern Ukraine and the occupation of Crimea, which led to the termination of economic ties with the Russian Federation [38].
After 2014, the economic direction changed and the main importer remained Italy, and in addition China. Exports, in turn, went to the EU.
In the future, we analyzed the regional market of Chernihiv. In our opinion, it demonstrates excellent prospects for the development and prosperity of the vending business. The reason for this is very little competition and economic growth in the region. This is evidenced by data from the State Statistics Service. The first indicator that was considered was "Retail turnover inthe Chernihiv region" (Fig. 4).

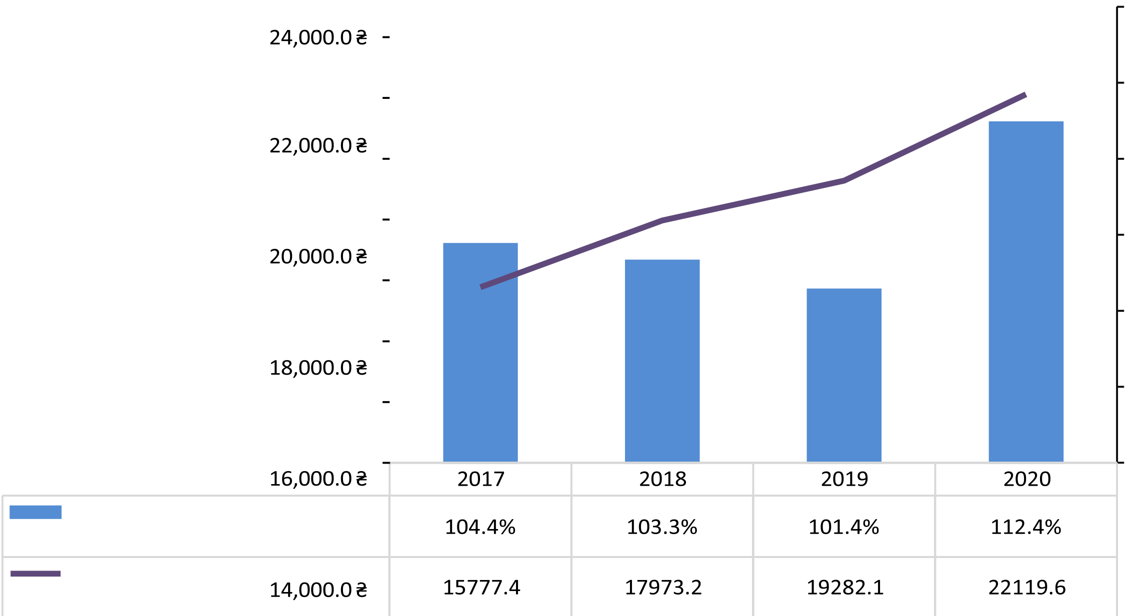


Fig. 4 Retail turnover in the Chernihiv region (2017-2020) Source: compiled by the authors on based [38].
As we can see, in 2020 the growth is very high, whichindicates an increase in cash flow compared to previous years. This is due to the fact that most people have begunto withdraw their funds from storage, which in turn will stimulate the economy.
The next indicator that was considered was the "Regional structure of retail trade turnover of retail trade enterprises". This indicator makes it possible to determinehow much turnover has increased and whether it is profitable to conduct retail trade in terms of purchasing power of the population. Data from the State Statistics Service are shown in Fig. 5

Fig. 5 Regional structure of retail trade turnover of retail trade enterprises (2017-2020) Source: compiled by the authors on based [38].
The macroeconomic indicator of the "Regional structure of retail trade turnover" is perhaps the most important indicator that allows you to assess market prospects. This indicator shows the amount of working capital, which in turn allows us to determine the economic growth of the market and its attractiveness (Fig. 6).
As we can see, retail trade and retail trade are growing at a significant pace despite the anti-epidemic measures and quarantines in 2019. This result indicates theadaptation of entrepreneurs to new conditions anddevelopment of the region. Growth of 12.8% is a very good indicator.
The volume of retail trade in Ukraine in March 2021increased to 13.1% (compared to March 2020). Accordingto the results of the first quarter, retail trade increased by 7.5% compared to the same period last year [39].
The positive dynamics of the industry, first of all, wassupported by the restoration of economic activity in

mostareas of the economy under adaptive quarantine, as well asstimulating consumer demand in view of increasing socialstandards.

Thus, from January 1 of this year, the minimum wageincreased (from 5,000 hryvnias at the end of 2020 to 6,000hryvnias from January 2021), from March 1, recalculationand indexation of pensions for almost 10 million citizens was carried out (including age, service) years, disability due to loss of a breadwinner [39].

In addition, the financial support of business and thepopulation from the state had a positive impact on retail trade. In particular, during the winter lockdown more than470 thousand private individuals and employees receivedassistance [39].

In the regional context, in January-March 2021, the dynamics of the retail segment of the domestic market in all regions was positive, including in 12 regions the indicator exceeded the value for Ukraine as a whole. Since the beginning of the year, the volume of retail trade has increased the most - by more than 10% in Kyiv, Chernivtsi,Chernihiv, Vinnytsia, Ternopil regions [39].

The growth of retail trade in the Chernihiv region is an important indicator for the introduction of vending trade. It is the increase in purchasing power and low competition that should encourage investment and development of this type of activity.

The proposed outline of the business model of the vending trade project is presented in Fig. 7.

Key partners:	**Key actions:**	**The main idea, value:**	**Interaction with consumers:**	**Consumer segments:**
- enterprises-producers of goods (strategic partner); - vending companies (manufacturer-supplier); - insurance companies (suppliers / joint	- supply of goods; - maintenance of vending machines; - renting vending machines;	For the population: round-the-clock and easy access to goods; For enterprises: provision of goods to	Relations with mass consumers are automated, with enterprises are personalized.	- different segments and groups of the population; - industrial
activities); - financial institutions (joint activities);	**Key resources:** - material (vending machines, transport, office equipment, etc.); - intellectual; - human (office and warehouse workers, staff servicing vending machines); - financial (funds for the purchase of goods, maintenance of vending machines)	employees and control over their use. The main idea is to save time and money for consumers.	**Sales channels:** Vending machines of different types.	enterprises; - office centers; - trading platforms; - producers of goods

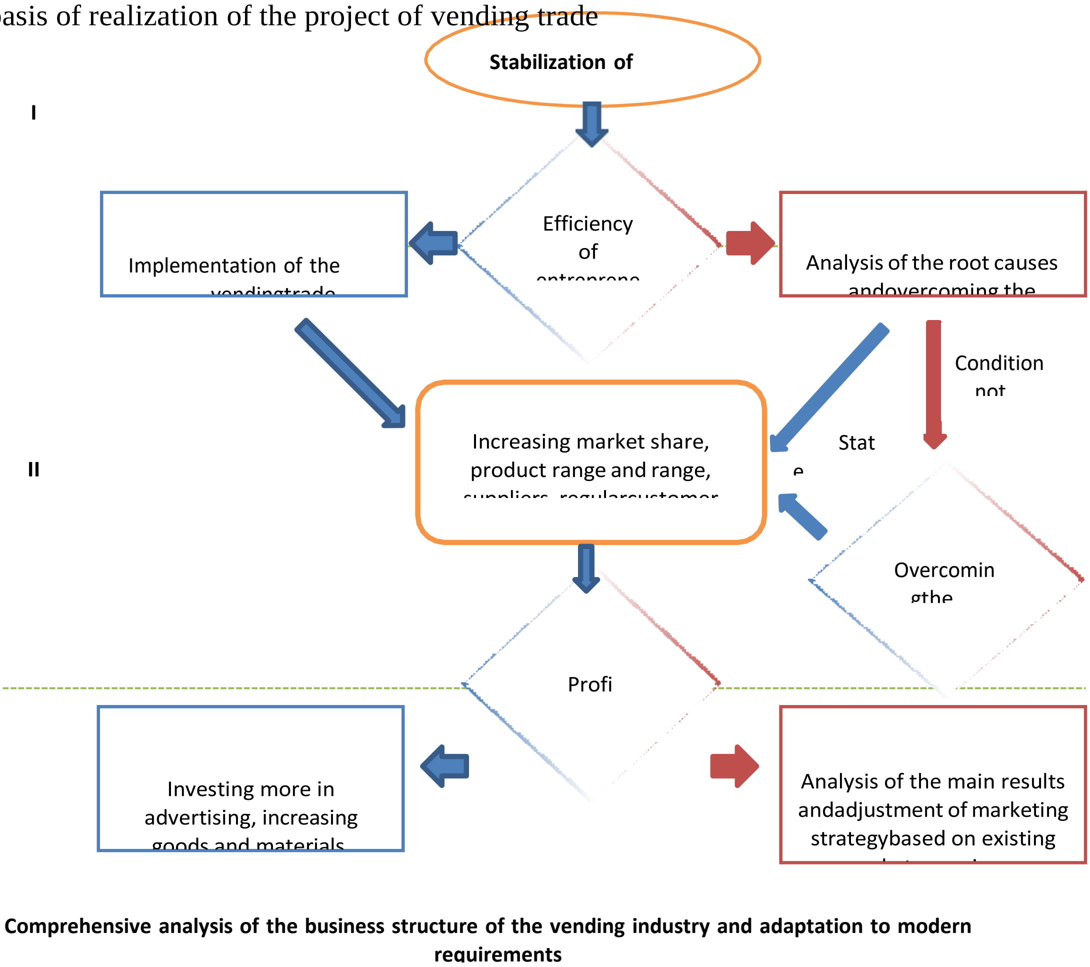
Cost structure:	**Receiving funds. Fundraising:**
1) basic material resources (vending machines and materials fortheir maintenance); 2) lease of accommodation facilities; 3) transportation and storage of goods; 4) human resources; 5) relationships with consumers and partners.	Consumers pay for the purchase of goods, which savestime; Clients (enterprises) pay for the purchase of goods (itssupply), equipment rental services.

Fig. 7 Outline of the business model of the company for the sale of goods through vending machines
Source: compiled by the authors

Marketing development in the field of commercial entrepreneurship is an integral part of increasing profits and competitive advantages. Before implementing the proposed project aimed at stabilizing quarantinerestrictions, it is necessary to plan all actions in advance and create a map of strategic business development. It willchange over time, but from the very beginning of the activity will outline the benchmarks by which the businesswill grow (Fig. 8).

The proposed scheme demonstrates the importance of marketing strategy and the use of digital infrastructure in overcoming crises due to quarantine restrictions.

Fig. 8 Scheme of stabilization of the subject of trade business in the conditions of quarantine restrictions on the basis of realization of the project of vending trade



1. Conclusions

Maintaining balance and ensuring survival in theshort term today is the main goal of most representatives of commercial entrepreneurship. However, for long-term strategic development, it is important to analyze the possibility of digital transformation at the level of the brand or retail network as a whole, as well as to begin to form and expand access to digital infrastructure leading and sustainable position in the online sales market.

Implementation of the provisions for the integration of digital infrastructure and trade entrepreneurship will allow:

- to modernize the sphere of retail in accordance withworld trends and increase the efficiency of its operation;
- better meet the needs of the market in goods and improve the quality and availability of customer service;
- ensure the speed and timeliness of delivery of goods to the final consumer; to improve the management system of trade enterprise development in general as a type of economic activity and individual business structures;
- increase the level of epidemiological safety and compliance with quarantine restrictions in the sale;
- reduce the operating costs of commercialenterprises and increase their economic efficiency in general.

References

[1] Abramova, A., Shaposhnykov, K., Zhavoronok, A., Liutikov, P., Skvirskyi, I., & Lukashev, O. (2021). Ecosystem of VAT Administration in E-Commerce: Case of the Eastern Europe Countries. *Estudios de economía aplicada*, *39*(5). http://dx.doi.org/10.25115/eea.v39i5.4909.

[2] Adeola, O., Gyimah, P., Appiah, K.O., Lussier, R.N. (2021). Can critical success factors of small businesses in emerging markets advance UN Sustainable Development Goals? *World Journal of Entrepreneurship, Management and Sustainable Development*, *17(*1), 85-105. DOI:10.1108/WJEMSD-

09-2019-0072.
[3] Akpan, I.J., Ibidunni, A.S. (2021). Digitization and technological transformation of small business for sustainable development in the less developed and emerging economies: a research note and call for papers. *Journal of Small Business and Entrepreneurship*. DOI: 10.1080/08276331.2021.1924505.
[4] Berezina, A., Saenko, N., Puryaev, A., Fridman, M., Artemova, E. (2021). The project approach in the development of small business in the Russian Federation. *Economic Annals-XXI, 188*(3-4), 141-148. DOI: 10.21003/ea.V188-17.
[5] Burov, V.Y., Khokhlova, G.I., Kretova, N.V. (2021). Development of small and medium-sized businesses in the construction industry through the use of business networks. *IOP Conference Series: Earth and Environmental Science, 751*(16), 012136. DOI: 10.1088/1755-1315/751/1/012136.
[6] Derhaliuk, M., Popelo, O., Tulchynska, S., Mashnenkov, K., Berezovskyi, D. (2021). State policy of the potential- forming space transformation in the context of the regional development intensification. *CUESTIONES POLÍTICAS, 39*(70), 80-93. DOI: 10.46398/cuestpol.3970.04.
[7] Fedyshyn, M. F., Abramova, A. S., Zhavoronok, A. V., & Marych, M. G. (2019). Management of competitiveness of the banking services. *Financial and credit activity: problems of theory and practice, 1*(28), 64-74. https://doi.org/10.18371/fcaptp.v1i28.163340.
[8] Fuchs, K. (2021). How are small businesses adapting to the new normal? Examining tourism development amid COVID-19 in Phuket. *Current Issues in Tourism, 24*(24), 3420-3424. DOI: 10.1080/13683500.2021.1942439.
[9] Grigoraș-Ichim, C.E., Cosmulese, C.G., Savchuk. D., & Zhavoronok. A. (2018). Shaping the perception and vision of economic operators from the Romania – Ukraine – Moldova border area on interim financial reporting. *Economic Annals-XXI, 173*(9-10), 60-67. https://doi.org/10.21003/ea.V173-10.
[10] Istyarini, W., Artaya, I.P., Purworusmiardi, T., Sukoco, A., Kamisutara, M., Bon, A.T. (2020). Marketplace effectiveness in increasing sales concentration of small business products during the COVID-19 pandemic. *Proceedings of the International Conference on Industrial Engineering and Operations Management, 59*, 2899-2908.
[11] Ivanova T.B., Vardanyan A.A. (2021). Improvement estimation accuracy of futures for small business effective functional development. *CEUR Workshop Proceedings, 2830*, 1-15.
[12] Ivanova, N., Butko, M. (2016). The Modern Trends of Infrastructure Development. *Baltic Journal of Economic Studies, 2*(3), 37–41.
[13] Ivanova, N., Kublitska, O., Krupitsa, I., Dybchuk, L., Koval, K., & Hanieieva, T. (2021). Peculiarities of the E-commerce Development in the Conditions of Digital Economy. *IJCSNS International Journal of Computer Science and Network Security, 21*(12), 193-202. https://doi.org/10.22937/IJCSNS.2021.21.12.28.
[14] Kholiavko, N., Djakona, A., Dubyna, M., Zhavoronok, A., & Lavrov, R. (2020). The higher education adaptability to the digital economy. *Bulletin of the National Academy of Sciences of the Republic of Kazakhstan, 4*(386), 294-306. https://doi.org/10.32014/2020.2518-1467.130.
[15] Kholiavko, N., Grosu, V., Safonov, Yu., Zhavoronok, A., & Cosmulese, C. G. (2021). Quintuple Helix Model: Investment Aspects of Higher Education Impact on Sustainability. *Management Theory and Studies for Rural Business and Infrastructure Development, 43*(1), 111-128. https://doi.org/10.15544/mts.2021.10.
[16] Korneeva, E., Skornichenko, N., Oruch, T. (2021). Small business and its place in promoting sustainable development. *E3S Web of Conferences, 250*, 06007. DOI: 10.1051/e3sconf/202125006007.
[17] Marrucci L., Iannone F., Daddi T., Iraldo F. (2021). Antecedents of absorptive capacity in the development of circular economy business models of small and medium enterprises. *Business Strategy and the Environment*. DOI: 10.1002/bse.2908.
[18] Matkovskaya Y.S., Belkina E.N., Balalova E.I., Nikulkina I.V., Ageeva O.A. (2021). The Development of Small and Medium High-Tech Businesses in Russia: Institutional and Infrastructural Aspects. *Lecture Notes in Networks and Systems, 280*, 513-526. DOI: 10.1007/978-3-030-80485- 5_61.
[19] Meramveliotakis, G., Manioudis, M. (2021). Sustainable development, covid-19 and small business in Greecep: small is not beautiful. *Administrative Sciences, 11*(3), 90. DOI: 10.3390/ADMSCI11030090.
[20] Ostrovskiy, V.I. (2021). Assessment of the state and prospects of development of cross-country entrepreneurship of small and medium-sized businesses in the Stavropol territory. *Lecture Notes in Networks and Systems, 200*, 930-939. DOI: 10.1007/978-3-030-69421-0_103.
[21] Parasotskaya, N., Berezyuk, V., Prasolov, V., Nazarova, V., Mezentseva, T. (2021). Comparative analysis of small and medium-sized businesses and its impact on the development of tourism. *Journal of Environmental Management and Tourism, 12*(6), 1586-1602. DOI:

10.14505/jemt.v12.6(54).15.

[22] Pitayachaval, P., Putomnak, W. (2021). State of the Art Factors that Influence to Small and Medium Business Development in Northeastern of Thailand. *2021 IEEE 8th International Conference on Industrial Engineering and Applications, ICIEA 2021* (pp. 265-269). 9436702. DOI: 10.1109/ICIEA52957.2021.9436702.

[23] Rakhimova, S., Goncharenko, L., Titkov, A., Sybachin, S., Kunanbaeva, K. (2021). Development of an economic mechanism for creating sustainable regional infrastructure for supporting small businesses.enko L., Titkov A., Sybachin S., Kunanbaeva K. (2021). *E3S Web of Conferences, 258,* 06063. DOI:10.1051/e3sconf/202125806063.

[24] Ramazanov, I.A., Panasenko, S.V., Cheglov, V.P., Krasil'nikova, E.A., Maslova, A.E. (2021). Prospects of Small Business Development in Russian Distribution Sector in the Context of Development of Communication Technology and Trade and Information Globalisation. *Webology, 18*(Special Issue), 487-512. DOI:10.14704/WEB/V18SI05/WEB18242.

[25] Samiilenko, H., Ivanova, N., Shaposhnykova, I., Vasylchenko, L., Solomakha, I., & Povna, S. (2021). Corruption as a Threat to Economic Security of the Country. *IJCSNS International Journal of Computer Science and Network Security, 21*(12), 316-322. https://doi.org/10.22937/IJCSNS.2021.21.12.44.

[26] Samiilenko, H., Kyrychenko, S., Kravchyk, Yu., Svinarova, H., Shevchenko, A. (2021). Assessment of Investment Potential of Regions Under the Impact of the Potential- Forming Space Transformation. *IJCSNS International Journal of Computer Science and Network Security, 21*(10), 250-256. https://doi.org/10.22937/IJCSNS.2021.21.10.35.

[27] Saputera, D., Ichsani, S., Wijaya, J.H., Hendiarto, R.S. (2021). Development of Small and Medium Micro Business: A Geographical Outlook on West Java Province, Indonesia. *Review of International Geographical Education Online, 11*(1), 712-719. DOI: 10.33403/rigeo.800610.

[28] Taufik, M.S.M., Faizal, P.R.M., Qayyum, A.R.A., Noorfazreen, M.A., Afifa, N. (2021). Applying the Islamic marketing ethics among small scale business Muslimpreneurs during Covid19 MCO: A comparison among types of social network system (SNS). *AIP Conference ProceedingsТом 2347,* 020277. DOI: 10.1063/5.0052028.

[29] Tulchinskiy, R., Chobitok, V., Dergaliuk, M., Semenchuk, T., Tarnovska, I. (2021). Strategic Guidelines for The Intensification of Regional Development Under the Impact of Potential-Forming Determinants in the Conditions of Digitalization. *IJCSNS International Journal of Computer Science and Network Security, 21*(8), 97-104.

[30] Verchenko, Y., Bogdanova, I., Kostoglodova, E., Kurinova, Y. (2021). Development of a strategy for the development of small business in the confectionery sector and assessment of the effectiveness of it. *E3S Web of Conferences, 273,* 08007. DOI: 10.1051/e3sconf/202127308007.

[31] Vovk, O., Tulchynska, S., Popelo, O., Tulchinskiy, R., & Tkachenko, T. (2021). Economic and Mathematical Modeling of the Integration Impact of Modernization on Increasing the Enterprise Competitiveness. *Management Theory and Studies for Rural Business and Infrastructure Development, 43*(3), 383-389. https://doi.org/10.15544/mts.2021.35 Yaremovich, P., Mykhailenko, D., Smerichevska, S., Andrushkevych, Z., Tytykalo, V. (2021). Formation of the scientific paradigm of the transformation of potentialforming space and logistics platforms of the regional economy. *IJCSNS International Journal of Computer Science and Network Security, 21*(10), 288-294. https://doi.org/10.22937/IJCSNS.2021.21.10.41.

[32] Zakharin, S., Babyna, T., Natroshvili, S., Smyrnov, Y., Honcharenko, N., Obruch, H. (2021). Market and social transformations as a condition of sustainable development at the regional level: Small and medium business and it- management. *Journal of Information Technology Management, 13,* 103-114. DOI:10.22059/JITM.2021.80740.

[33] TM UniPay. LLC "Intelligent vending systems". https://unipay.ua/ru/o-kompanii.

[34] SPS Postiray-Ka LLC. http://postirayka.com/ru/pro-nas-2.

[35] GWater. Vending machine manufacturer. https://gwater.com.ua/testpage.

[36] Avangard - manufacturer of vending equipment. https://vending-solution.com.

[37] State Statistics Service of Ukraine: website. http://www.ukrstat.gov.ua.

[38] Ministry of Economy of Ukraine: website. https://www.me.gov.ua/News.

***

The power of business models 10

Anshuman Sahoo

ABSTRACT

Over the past few years, bbusiness modelsQ have surged into the management vocabulary. But, while it has become quite fashionable to discuss business models, there is still much confusion about what business models are andhow they can be used. In fact, business models can serve a positive and powerful role in corporate management. While other authors have recently offered definitions ofbbusiness model,Q none appear to be generally accepted. This lack of consensus may in part be attributed to interest in the concept from a wide range of disciplines, all of which have found a connection to the term. To help managers better understand business models, this paper reviews the extant literature and identifies and classifies the components of business models cited therein. Components were classified intofour primary categories: strategic choices, the value network, creating value, andcapturing value. To address the absence of a generally accepted definition of a business model, a new definition that integrates and synthesizes the earlier work isoffered. Based on the proposed definition, business models are then contrasted with strategy. Four problems associated with business models are also discussed.

1. Business Models

For many years, Sun Microsystems enjoyed consid-erable success by bucking the industry trend toward standardized chips and software (Tam, 2003). Sun made the strategic choice to offer morepowerful and more expensive computer solutions based on proprietary hardware and software, which worked well as long as Sun was able to maintain a performance advantage. However, standardized chips eventually matched the per-formance of Sun's proprietary chips, and stand- ardized software offered functionality similar to Sun's. As a result, Sun has seen its quarterly sales drop by more than 40% since their peak in 2001, and its stock price decline to under $4 per share from a high of over $60 per share.

In late 2002, after a probing meeting with the head of Sun's low-end server business, Sun's CEO agreed that the firm would add a line of cheaper servers based on Intel chips. This strategic choice marked a clear departure from Sun's existing business model, but there is no evidence that thischange has helped the company's business. Infact, revenues for the quarter ending June 30, 2003 were down 13% from a year earlier. Indeed, one might reasonably conclude that Sun's bbusiness modelQ was and remains broken. Cer- tainly, the levels of misdirection and confusion in Sun's engineering and sales organizations, reported recently in the *Wall Street Journal*, suggest that, at a minimum, Sun is experiencing some problems communicating its new model internally.

Furthermore, there is little evidence that Sun executives considered issues of internal consistency as they reviewed alternative strategic choices. In particular, the choice to offer less expensive servers needs to be evaluated in terms of the added pressure this will place on Sun's more expensive hardware. In addition, a fundamental element of Sun's traditional strategy has beenplowing a significant portion of revenue back into R&D in an effort to maintain its performance advantage. Making the strategic choice to offer less expensive solutions will likely have a significant impact on Sun's ability to maintain its current R&Dfunding levels, which in turn will have implicationsregarding its ability to compete on the basis of higher performing solutions.

It is hard to argue that there is a single brightQstrategic answer for Sun. However, it is similarly difficult to believe that all of the cause-and-effectrelationships within the new business model have been carefully considered. Based on media reportsand customer complaints, it is fairly obvious that Sun's executives have not been successful in explaining their new model. While business modelscan be powerful tools for analyzing, implementing,and communicating strategic choices, there is no evidence that Sun has successfully harnessed that power.

Over the past few years, bbusiness modelsQ have surged into the management vocabulary. In the mid-1990s,bdot-comQ firms pitched business models to attract funding. Now, companies of all sorts in virtually every industry rely on the concept as well;in fact, approximately 27% of Fortune 500 firms used the term in their 2001 annual reports. The media have certainly gotten on board also. Withinmajor magazines and journals, only one article in 1990 used the term bbusiness modelQ three times or more; by 2000, well over 500 articles fell into thatcategory.

Mr. Anshuman Sahoo, Asst.Prof. GIET, Bhubaneswar

While it has become quite fashionable to discuss business models, many executives remain confused about how to use the concept. For example, in a recent Accenture study, in which one of the authors took part, 70 executives from
40 companies were interviewed regarding their company’s core logic for creating and capturing value: the basis of a business model. Surprisingly, 62% had a difficult time describing succinctly how their own company made money (Linder & Can- trell, 2000), and it appears that Sun’s executives may be similarly confused. Strategist Michael Porter (2000) has referred to the phrase bbusinessmodelQ as part of the bInternet’s destructive lexiconQ; we disagree. We believe that business models can in fact play a positive and powerful role in corporate management. Before exploring that role in more detail, it is first necessary to understand exactly what constitutes a businessmodel.

2. Desperately seeking definition: Identity crisis of the business model

To be sure, many authors have offered defini- tions of the term bbusiness model.Q Our own review of relevant literature uncovered 12 definitions in established publications during the years 1998—2002. None of these definitions, however, appears to have been accepted fullyby the business community, and this may be due to emanation from so many different perspec-tives (i.e., e-business, strategy, technology, and information systems), with the viewpoint of each author driving term definition; by peering through different lenses, authors are seeingdifferent things.
In fact, across these 12 definitions, one can find
42 different business model components: unique building blocks or elements. As Table 1 illustrates,some of these components appear in only onedefinition, but others are seen time and timeagain. To gain additional insight, we developed anaffinity diagram (Pyzdek, 2003) to categorize the business model components that were cited twiceor more (affinity diagrams are a popular bSix SigmaQ tool for organizing ideas into categories based on their underlying similarity; affinity diagrams help to identify patterns and establish related groups that exist in qualitative datasets). The resulting affinity diagram (see Fig. 1) identified four major categories: strategic choices, creating value, cap-turing value, and the value network. To develop the affinity diagram shown in Fig. 1, two of the authors, along with a graduate student, worked independently to (a) cluster into categories the 20business model components cited two or moretimes and (b) develop a descriptive name for each

Table 1 Components of a business model

	Timmers (1998)	Hamel (2000)	Afuah and Tucci (2001)	Amit and Zott (2001)	Weill and Vitale (2001)	Dubosson-Torbay et al.(2002)	Magretta (2002)	Rayport and Jaworski (2002)	Van Der Vorst et al., 2002	Hoque (2002)	Chesbrough (2003)	Hedman and Kalling (2003)
Context	E-Business	Strategy	E-Business	E-Business	E-Business	E-business	Strategy	E-Business	E-business/SCM[a]	Technology	Strategy	IS[b] and strategy
Components												
Value network (suppliers)	X	X			X	X			X	X	X	X
Customer (target market, scope)		X	X			X	X	X		X	X	
Resources/assets		X		X		X		X		X		X
Value proposition			X			X	X	X	X		X	
Capabilities/competencies		X	X	X		X						X
Processes/activities		X	X			X			X			X
Revenue/pricing	X	X	X			X					X	
Competitors								X		X		X
Cost						X	X				X	
Information flows	X			X	X							
Output (offering)				X				X				X

Product/service	X			X	X							
flows		X								X	X	
Strategy												
Branding						X				X		
Customer		X				X						
information												
Customer		X				X						
relationship												
Differentiation		XX				XX				XX		
Financial aspects								X				
Mission												
Profit							X					
Business				X								
opportunities												
Cash flows Create					X							
value Culture				X								
Customer benefits										X		
Customer interface								X				
Economic logic		X										
Environment							X					
										X		
Firm identity										X		
Firm reputation										X		
Fulfillment and		X							XX			
support												
Functionalities			X									
Implementation												
Infrastructure—												
applications												
Infrastructure—						X						
management												
Management												X
Product innovation						X						
Specific									X			
characteristics			X									
Sustainability				X								
Transaction content												
Transaction				X								
governance												
Transaction				X								
structure												

[a] Supply chain management.
[b] Information systems.

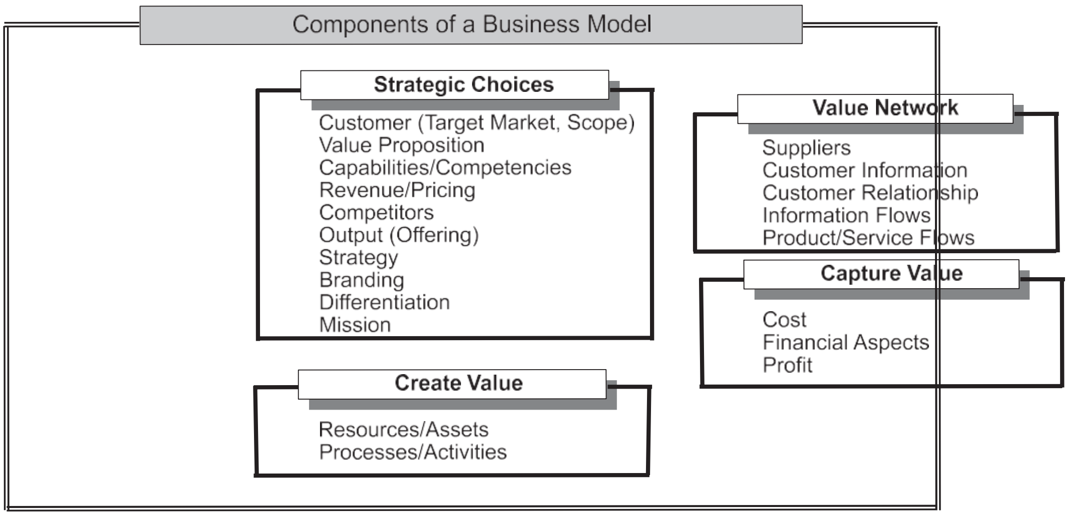


Figure 1 Components of business model affinity diagram.

category. At that point, the preliminary clusters were shared, and two of the authors discussed theindividually developed clusters to reach a final consensus.

Since no generally accepted definition of a business model has emerged to date, we offer a new definition guided by the following two princi-ples. First, the definition should integrate andsynthesize the earlier work in this area. Second, the definition should be simple enough so that it can be easily understood, communicated, and remembered.

As a starting point, we began by parsing the term bbusiness model.Q More specifically, business is fundamentally concerned with creating value and capturing returns from that value, and a model is simply a representation of reality. Combining these concepts with the results sum- marized in the affinity diagram shown in Fig. 1,we define a business model as a representation ofa firm's underlying core logic and strategic choicesfor creating and capturing value within a value network.

This definition includes four key terms. The firstkey term, core logic, suggests that a properlycrafted business model helps articulate and make explicit key assumptions about cause-and-effect relationships and the internal consistency of stra- tegic choices: the second key term. In effect, the business model reflects the strategic choices that have been made; a point to which we return in thenext section.

The term creating and capturing value reflects two fundamental functions that all organizations must perform to remain viable over an extended period of time. Successful firms create substan- tial value by doing things in ways that differ- entiate them from the competition. Firms might develop core competencies, capabilities, and positional advantages that are different from those of competitors. They might use those core competencies and capabilities, for example, toperform work activities in a unique way or might combine their work activities into business pro- cesses in a way that differentiates them fromcompetitors. They might even have a unique approach in securing the capital that is neededto fund the creation of the core competencies, capabilities, and positional advantages. In the end though, for-profit companies must make money to survive; thus, their viability is tied both to the value they create and to the way they capture value and resultantly generate profit.

Neither value creation nor value capture occursin a vacuum, however. As Hamel (2000) argues, both occur within a value network, which caninclude suppliers, partners, distribution channels, and coalitions that extend the company's ownresources. The firm may be able to create unique relationships with any of these parties or even withits end customers. The role a firm chooses to playwithin its value network is an important element of its business model.

Note that this definition is in no way restricted to the online world. Of course, it is true that the use of the term bbusiness modelQ gained momen- tum during the dot-com era: those bygone days inwhich sock puppets sold dog food on web sites. But, as we noted at the outset, the concept is relevant for firms of all sorts. While some refer tobe-business modelsQ (e.g., Chen, 2003; Weill & Vitale, 2001), our definition in no way demands the be-Q prefix.

3. A bbusiness modelQ is not a strategy

With a definition now in hand, we can consider something that a business model is not: a strategy.While a business model does facilitate analysis, testing, and validation of a firm's strategic choices, it is not in itself a strategy.

What exactly is the relationship between a firm's strategy and a business model? To answer this question requires that one first define bstrategy,Q but unfortunately that is not a trivial task. As Henry Mintzberg (1994) notes in his book *The Rise and Fall of Strategic Planning*, bstrategyQ can be viewed in at least four different ways: as apattern, plan, position, or perspective. Specifi- cally, in a backward-looking context, strategy is sometimes viewed as a pattern of choices made over time. More frequently, however, strategy is considered in a forward-looking sense. Within thatforward-looking domain, some see strategy as a plan; a view that relates to choices about paths orcourses of action, much like a directional roadmap. Some, such as leading strategist Michael Porter, see strategy as a position; a view that relates to choices about which products or services are offered in which markets based on differentiating features. Still, others, such as management guru Peter Drucker, view, in a grand vision, strategy asperspective; choices about how the business is conceptualized.

Although these views differ in many respects, they all have in common the element regarding making choices. Business models reflect these choices and their operating implications. They facilitate the analysis, testing, and validation of the cause-and-effect relationships that flow from the strategic choices that have been made. In some cases, executives can best effect this by directly translating one set of strategic choices into a single business model, which they then analyze, test, andvalidate. In other cases, executives may wish to consider a range of business models simultaneously, each representing a different set of strategic choices before drawing a conclusion about the bestbusiness model for their organization.

As an illustration of the difference between a strategy and a business model, consider the con- struction of a custom home. Initially, the architectconsults with the future homeowners to understand how they envision the finished home and their lifewithin it. They then consider options in a number of areas (e.g., main level or second-story masterbedroom) and create a design to fulfill the vision; this corresponds to the strategy. Next, the archi-tect prepares a detailed floor plan and elevation based on the choices made during the design process; this corresponds to a business model. Justas a business model can be used to help analyze and communicate strategic choices, the floor plan canbe used to help understand, analyze, and commu-nicate the design choices that were made. In fact,it could even prod the future homeowners to rethink some of their original strategic choices; for example, as the process moves forward, they might realize their choice of a main level master bedroom would conflict with the only possibleplacement of the kitchen, leading them to revisit their original choices and perhaps modification.

Applied in a business context, consider GM's OnStar division (Barabba et al., 2002). In the late 1990s, GM created a project team to develop a business model and strategically analyze opportu-nities related to the telematics industry (tele- matics involves the use of wireless communication technologies and global positioning systems to deliver a variety of safety, security, entertainment, and productivity services to individuals while theyare traveling in their cars). The team was unsure how to position the telematics business opportu-nity. One alternative was to simply treat it as though it was another car feature. From GM'sperspective, this was a safer and more conservative approach since it had extensive previous experi- ence in pricing and marketing vehicle options. The other alternative was to position telematics as a new service business. From this perspective, the telematics opportunity entailed greater risk, giventhe large investment in infrastructure that would be required and GM's lack of experience dealing directly with end consumers (a subset of other strategic decisions and options for each decision are listed in Table 2).

After identifying the relevant strategic decisionareas and the options in each, choices are made. Abusiness model embodies a set of choices. Throughit, the set can be tested and analyzed to ensure

Table 2 Illustrative strategic decision areas andoptions at OnStar

Strategic decision	Options
Position	New service business New car feature
Installation	Factory Field
Internal product scope	Select GM vehicles All GM vehicles
External product scope	Only GM vehicles Sell to other auto manufactures
Call center	Insource Outsource
Application development	Insource Outsource

that implicit cause and effect relationships are logical and that the choices are mutually suppor- tive and internally consistent.

But how would OnStar team test the business models that represented different sets of strategicchoices? The team had to ensure that implicit andexplicit cause-and-effect relationships were logical and reasonable and also had to ensure the choiceswere internally consistent and mutually supportive. This was not an easy task because no historical data existed for this brand new industry. Instead, the project team relied on a variety of sophisticated management science methodologies, including sys-tems dynamics, conjoint analysis, dynamic optimi-zation, models of diffusion, real options valuation,simulation, and game theory. Using simulation techniques, for example, the team was able to analyze how factors, including customer acquis- ition, customer choice, alliances, customer service, finances, and dealer behavior would impact busi- ness performance on multiple dimensions, includ- ing market share and cash flow.

As part of this analysis, the team demonstratedthat attempting to run the call centers as cost centers would result in business failure. Inaddition, the team was able to analyze the options of installing OnStar in vehicles both atthe factory and in the field and found that factory installation would provide a superior out- come in all parameters.

As a result of these types of analyses, the teamultimately recommended that senior managementembrace a more aggressive set of strategic choicesand create a new service business. The suggested model included a number of rather aggressivepositions, including that OnStar be installed in all new GM cars, that GM recruit and make available OnStar to other auto manufacturers, that one yearof service be provided free, and that GM aggres- sively pursue partnerships with content providers.GM senior management accepted the project team's recommendations and formally acknowl- edged that the iterative process employed by the team, one in which strategic choices were tested through business models, greatly influenced their decision.

Although the jury is still out regarding OnStar's ability to consistently make money, the results of GM's OnStar initiative have so far been ratherimpressive. By the fall of 2001, GM had two million OnStar subscribers, representing 80% ofthe telematics market. Alliances with other majorauto manufacturers, including Toyota, Honda, VW,Audi, Isuzu, and Subaru provide OnStar with accessto approximately 50% of total new vehicle sales. GM has also developed partnerships with impor- tant content providers, including Dow Jones and Fidelity Investments. Internal forecasts indicate that the service will break even in 2003 and generate significant positive cash flow thereafter.Based on these results, Merrill Lynch (2002) has valued the OnStar business at between $4 to $12 billion.

We earlier defined a business model as therepresentation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network. The core logic shouldbe as comprehensive as possible, not simply one ortwo components, and the business model should reflect the firm's strategic choices. While execu- tives can use business models to analyze and communicate strategic choices, it is equally impor-tant to recognize that misusing the business modelconcept can lead to problems; a topic to which wenow turn.

4. Four problems of business models

A properly crafted business model has great powerand can serve as an essential strategic tool for thefirm, but concerns about business models can be traced to four common problems associated with their creation and use. These problems, whichfollow directly from the key terms in our definition, are the following:

(1) Flawed assumptions underlying the core logic.
(2) Limitations in the strategic choices consid-ered.
(3) Misunderstandings about value creation andvalue capture.
(4) Flawed assumptions about the value network.

4.1. Flawed assumptions underlying thecore logic

A firm moves into a danger zone if its business model's core logic is based on flawed or untested assumptions about the future. Recently, an entre-preneur told us of an exciting opportunity his firmwas planning to pursue, providing integrated services over wireless networks in many regionsof the US. His business model seemed to be well formed and internally consistent in that he had a good sense of his core logic for both creating and capturing value. However, when asked about incompatibilities in standards among wireless net-works, he told us that he was assuming seamless and interchangeable national service in the near future. While we certainly agree there ought to besuch a seamless and standard network across wireless providers, the reality is that such a network does not now exist and likely will not for a number of years; hence, our prediction is that he will face significant challenges in implementinghis model.

It is vital that, once a set of strategic choices has been made, the resulting business model be checked to ensure that implicit and explicit cause-and-effect relationships are well-grounded as well as logical. Furthermore, the resulting business model should be scrutinized to ensure that the set of choices is internally consistent and mutually supportive of one another. To illustrate this, consider two of the strategic choices faced byOnStar: its position and its external product scope.One incompatible combination of choices would have been to position OnStar as simply a new car feature and to make OnStar available to other automanufacturers. If such a combination of choices were embraced, any potential benefits to GM would be quickly negated since the competition would be able to offer the identical feature. Alternatively, choosing to position OnStar as astand-alone service business and making the serv- ice available to other auto manufacturers are choices that are quite compatible. In such a case,the decision to offer the service to other auto manufacturers facilitates penetration of a newmarket.

4.2. Limitations in the strategic choicesconsidered

A business model should address all of the firm's core logic for creating and capturing value, not justa portion of that logic. Indeed, one of the major mistakes of the bdot-comQ era was the assumption that, having defined one portion, one had a busi- ness model. When one addresses only a small subset of the rows in Table 1 or only a subset of the categories in Fig. 1, one is mistaken in referring tothis as a bbusiness model.Q Definition of a customer set (e.g., families with young children) or a value proposition (e.g., providing much more value at a greater cost), for example, does not constitute a business model. Of course, such an error in nomenclature is problematic in and of itself because it frustrates communication. However,the biggest flaw with such an approach is that it may well delude the executive into overestimatinghis or her model's probability of success in the marketplace.

eToys serves as a high-profile example of a firmthat made this mistake in the dot-com world. In aneffort to build its customer base and gain brand awareness in 1999, eToys (and its online compet- itors, such as KBToys) focused primarily on cus- tomer acquisition. Not surprisingly, this lead to cut- throat price wars, deep discounts, and offers of free shipping among the toy e-tailers, each ofwhom was hoping to establish a beachhead in the

$23 billion per year toy retailing industry (Bannon,2000). In fact, eToys' goal of customer acquisitionwas largely achieved. Four years after opening its virtual doors for business and by spending at timesas much as 60% of its revenues on marketing, eToysestablished a base of almost two million customers. However, eToys had not developed (or, it appears,even seriously considered) another important com-ponent in its business model: the process of fulfilling customer orders. During the 1999 holidayseason, eToys received a tremendous amount of bad publicity resulting from its very poor andunreliable delivery performance. In an effort to not repeat this fiasco the following year, the company invested heavily to in-source order fulfill-ment. But, in the end, eToys was not able to generate the volume of business needed to supportits investment in infrastructure and went bankruptin 2001 (Cox, 2001; eToys, 2001). Its realization that it had never really created a workable business model in that it had been relying on only the singlecomponent of customer acquisition came far too late for recovery.

The problem of too limited a set of strategic choices can often be traced to a tendency on the part of senior management to consider strategic decisions in a piecemeal fashion, which is espe- cially likely in a volatile business environment. Sun would certainly fall into this trap if it considered offering low-end servers independent of other strategic decisions. The problem is also exemplified by eToys' initial attention being focused almost exclusively on customer acquisition, with a subse-quent shift to order fulfillment.

A business model provides a powerful tool for avoiding this pitfall for two reasons. First, becausethe business model is a reflection of the strategic choices made, it highlights the need to consider holistically a range of strategic decisions. Second,the business model requires senior management toconsider the logic and internal consistency of the strategic decisions collectively.

4.3. Misunderstandings about value creationand value capture

Many executives have a tendency to focus so muchon the value creation part of the model that the value capture portion is ignored or at least down- played. In these situations, organizations are unable to capture corresponding economic returnsin relation to the value they create.

As an example of creating value but not capturing it, consider the online portal Yahoo!For many individuals, Yahoo!'s continuously expanding range of offerings, including searchesof the Web, e-mail accounts, stock quotes and other financial information, greeting cards, maps,driving directions, and so on create a tremendous amount of value. The fact that Yahoo! is consis- tently among the top sites in terms of uniquevisitors per month is a further indication of its appeal. But, for many years, Yahoo! struggled to turn this value into profit; in fact, its net loss more than doubled from its fiscal year ending in 1997 to the one ending in 2001. However, under the hand of CEO Terry S. Semel, who joined Yahoo! in May 2001, the company has apparently found a way to capture more of this value, with revenues now coming from bdigital music and online games to job listings and premium e-mail accounts with loads of extra storage... [Yahoo!now] pulls in one-third of revenue from such offerings and hopes to drive it up to 50 percentby 2004,Q according to a recent *Business Week* report (Elgin & Grover, 2003).

Alternatively, executives can encounter this pit-fall when they confuse potential value with actualvalue. Just a few years ago, professional invest- ment analysts argued that a company's perform- ance ought to be measured by its number of customers, not its free cash flow. It seems silly now, but many capable business leaders have similarly confused potential value with actual value when they design business models. For example, one large commercial bank spent millions acquiringan investment-banking boutique to get into the *Wall Street* deal flow only to discover that their model did not work. The newly acquired invest- ment bankers refused to share information and resisted the commercial bankers' interference with their clients. They were particularly unenthusiasticabout making joint sales calls to help sell commer-cial banking services with margins that did not support their bonus structure.

4.1. Relying on flawed assumptions aboutthe value network

Sometimes, a model mistakenly assumes that the existing value network will continue unchanged into the future. For example, oil companies have been accustomed to retailing gasoline through their own branded outlets in the UK. When supermarketchains, like Tescos and Safeway U.K., began draw-ing customers into stores with low-priced gasoline,some oil companies simply added food products totheir gas station inventories. This choice main-tained the current value network. Cagier compet-itors, like BP, took a different tack. They locked up partnerships with the best grocery chains under the premise that the oil company would manage gas retailing and the grocery company would manage food retailing across all the outlets in their joint network.

In another example, listeners of US commercialradio stations are accustomed to receiving free broadcasts in return for listening to advertise-ments; in fact, this has been true for severaldecades. However, building a business model on the long-term assumption that this arrangement will continue may be a mistake. Although only beginning to move from infancy into adolescence,satellite radio (now with two major US providers, XM and Sirius, each offering dozens of commercial-free stations for a fee) may turn the longstanding free-programming-with-commercials structure on its head. Business models that assume a continu- ation of the current state of affairs, such as one foran intermediary that barters commercial time among local stations in return for services, could well be flawed.

To be sure, some in the broadcast industry haveconsidered the emergence of satellite radio but have downplayed the threat to local stations, arguing that listeners expect to receive local information (e.g., traffic reports, weather, local news), which satellite technology is not well suited to deliver. It should be noted though that the XM and Sirius signals are transmitted, not just over satellites, but also through local signal repeaters that the companies have installed in several US urban areas. Their stated intentions areto use the repeaters to improve reception within crowded city environs as satellite reception can beunreliable in the midst of tall buildings. At present, these repeaters typically deliver the national feeds without any local customization; however, it is certainly conceivable that theserepeaters will allow the satellite companies tosomeday compete with local programming andcarry local advertising (Flynn, 2003).

1. Final thoughts

The survival and prosperity of all for-profit organ-izations is directly linked to their ability to both create and capture value; therefore, business models are applicable to all these. Of course, the strategic decision areas confronting each organiza-tion will vary based on numerous factors such as the firm’s age, industry, industry concentration, cus- tomer type, government regulations, and so on. At the same time, an organization’s business model isnever complete as the process of making strategicchoices and testing business models should be ongoing and iterative. While there are certainlyno guarantees, we contend that the probability oflong-term success increases with the rigor andformality with which an organization tests its strategic options through business models.

Business models provide a powerful way forexecutives to analyze and communicate their strategic choices. Although there is some chance that firms with sloppily formulated business models will succeed in the marketplace, the probability islow since the core logic for value creation and capture will not have been clearly thought through. As the old saying suggests, blind squirrelsdo occasionally find acorns, but, until they do, there is a lot of wasted effort. Just like firms thatburn through their working capital, the squirrels may run out of energy before they achieve their prize.

References

Afuah, A., & Tucci, C. L. (2001). *Internet business models and strategies.* Boston: McGraw-Hill, Irwin.

Amit, R., & Zott, C. (2001). Value creation in e-business.
Strategic Management Journal, 22, 493 — 520.

Bannon, L. (2000, October 23). E-commerce (A special report):The lessons we’ve learned—Toys: Rough play—consumers likebuying toys online; but that hasn’t made it a great businessyet. *Wall Street Journal*, p. R1.

Barabba, V., Huber, C., Cooke, F., Pudar, N., Smith, J., & Paich,
M. (2002). A multimethod approach for creating new business models: The General Motors OnStar project. *Interfaces*,*32*(1), 24 — 34.

Chen, S. (2003). The real value of e-business models. *BusinessHorizons*, *46*(6), 27 — 33.

Chesbrough, H. (2003). Open innovation. Boston7 Harvard Busi-ness School Press.

Cox, B. (2001, January 26). eToys on the ropes. www.internetnews.com

Dubosson-Torbay, M., Osterwalder, A., & Pigneur, Y. (2002).E-business model design, classification, and measurements. *Thunderbird International Business Review*, *44*(1), 5 — 23. Elgin, B., & Grover, R. (2003, June 2). Yahoo! act two. *Business*
Week, *3835*, 70 — 76.

Etoys gets approval to sell assets in smaller pieces. *Wall StreetJournal*, p. B11.

Flynn, L. J. (2003, January 7). Investors and local broadcasters watch growth of satellite radio. *New York Times*, p. C7.
Hamel, G. (2000). *Leading the revolution*. New York7 Plume. Hedman, J., & Kalling, T. (2003). The business model concept:
theoretical underpinnings and empirical illustrations. *Euro-pean Journal of Information Systems*, *12*, 49—59.
Hoque, F. (2002). *The alignment effect*. Upper Saddle River, NJ7 Prentice Hall.
Linder, J., & Cantrell, S. (2000). Carved in water: Changing business models fluidly. *Accenture Institute for strategic change*.
Magretta, J. (2002). Why business models matter. *HarvardBusiness Review*, *80*(5), 86—92.
Merrill Lynch Equity Research. 2002, April. New York7 General Motors.
Mintzberg, H. (1994). *The rise and fall of strategic planning*.
New York7 Free Press.
Porter, M. E. (2000). Strategy and the internet. *Harvard BusinessReview*, *79*(3), 62—78.
Pyzdek, T. (2003). *The six sigma handbook*. New York7McGraw-Hill.
Rayport, J. F., & Jaworski, B. J. (2002). *Cases in e-Commerece*.
Boston7 McGraw Hill.
Tam, P. -W. (2003, October 16). Cloud over Sun Micro- systems: plummeting computer prices. *Wall Street Jour- nal, pp. A1—A16.*
Timmers, P. (1998). Business models for electronic markets.
Electronic Markets, *8*(2), 3—8.
Van Der Vorst, J. G. A. J., Van Dongen, S., Nouguier, S., & Hilhorst, R. (2002). E-business initiatives in food supply chains; Definition, and typology of electronic business models. *International Journal of Logistics: Research and Applications*, *5*(2), 119—138.
Weill, P., & Vitale, M. R. (2001). *Place to space: Migrating to eBusiness models*. Boston7 Harvard Business School Press.

***

11

Digital Marketing in Indian Context

Narendra Kishore Mishra

ABSTRACT
Digital marketing is rising in India with fast pace. Many Indian companies **are** using digital marketing for competitive advantage. Success of marketing campaign cannot be solely achieved by digital marketing only. Rather for success of any marketing campaign it should fully harness the capabilities of various marketing techniques available within both the traditional and modernmarketing. Startups who use digital marketing many times got failed. This study shows precautions to be taken for effective implementation of digital marketing to reap tremendous potential to increase in sales.

Keywords: Digital marketing, social network, ecommerce,online retail, start up and commandments.

Introduction

Digital Marketing is any form of marketing products or services, which involves electronic devices. It can be both online and offline. According to institute of direct marketing "the use of internet and related digital information and communication technologies to achieve marketing objectives."

According to CAM Foundation – "Digital Marketing is a broad discipline, bringing together all forms of marketing that operates through electronic devices – online, on mobile, on-screen. Over the years, digital marketing has developed enormously, and it continues to do so."

Search Engine Optimization, Search Engine Marketing or Pay per Click Advertising, Social Media Marketing, Content Marketing, Mobile Marketing, Web Analytics, Marketing Automation, Content Writing & Rate Optimization are the popular and most-demanded areas in digital marketing.
It is the creative use of management information system (MIS) and technology which supports customers interaction with e-marketers. Marketers need to usetechnology and information and intuition to set brands and grab opportunities. E-Commerce has unleashed the revolution which is changing the way of doing business. In1997 U.S. govt. allowed use of internet by commercial organization. This gave impetus to new way of conductingtrade and commerce.

In 2015 e-commerce activities get boost up with rapidexpansion, multiplicity of campaign, deals based user acquisition and more. This shift in e-commerce become more noticeable with higher focus on consumer knowledgeand retention, improvement in experience, and depth of assortment across an ever wider range of categories. E- commerce players are focusing on retention on existing customers and acquisition of new users. To enhance loyalty of customers towards e-commerce as a category they are differentiating in leveraging data and assortment trends to finally move towards one to one marketing principle. Customers are rewarded for their loyalty with better experience across delivery, pricing, exclusive offer and return policies
Early e-commerce trialists and adopters have clearly understood and experienced the immense benefit of e-commerce. Therefore companies are scaling down mass media advertising description of e-commerce targeted early trialists and adopters. Main digital platform such as Google, Facebook, Twitter, You Tube etc. are rolling out more advertiser friendly products that are allowing smalleras well large players to market with high efficiency to early adopters. This is resulting in increase in digital marketing spending. Due to innovation of digital media coupled e-commerce players system is moving from application download and visit metrics to user metrics instead.

Dr. Narendra Kishore Mishra, Professor, Global Institute of Management, Bhubaneswar

Investment made so far to generate early adopters of e- commerce are rotating into targeting late adopters through regional and vernacular offline media. Advertisers have finally accepted that there will be end of long form of advertisement and branded content will rise. Digital video-advertising even started issuing advisories asking consumers to keep edit length short. Brand are experimenting, to large extent, with expressing themselvesthrough digital and youth content. This has driven wider choices of content, sharper entertainment propositions, andincrease in the smart phone viewership dividend. Sustained advertiser investment depends on how fast the emerging digital content industry adopts scientific measurement tool.Innovations in the core products are generating big impact on user acquisition and retention due to digital store and service experience. The players who are delivering gainingmore consumer friendly products and service improvementare gaining more.

1. Some facts about Indian Digital Marketing Industry

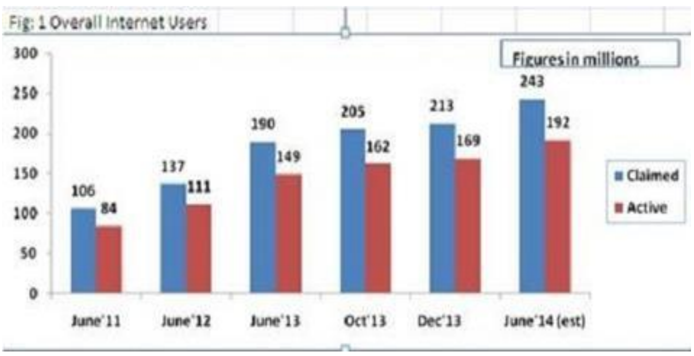
- As per a report by IAMAI and Boston consulting group, India has one of the largest and fastestgrowing populations of Internet users in the world—190 million as of June 2014 and growing rapidly.
- According to a report, India will cross 500 millionInternet Users Mark in 2020
- According to Direct Marketing Association, Digital Marketing Industry is worth $62 billion
- According to eMarketer, advertising via mobile phones and tablets rose 180 percent, to $4 billion in 2014
- According to a report published in The HindustanTimes, New Delhi digital advertising space inIndia is worth Rs. 6000 crore and video is Rs. 1600 crore of that. In 2016 the digital ad space will grow to Rs. 8100 crore and video will grow faster than search and classified.

According to a research firm eMarketer ecommerce sales in India are expected to grow from $14 billion in 2015 to $55 billion in 2018. India has seen the fastest growth in retail ecommerce among Asia-Pacific countries, surging 133.8% in 2014 and 129.5% in 2015. The combined gross merchandise value, or total value of sales of country's top three ecommerce places
i.e. (Flipkart, Amazon and Snapdeal) in 2015 was
$13.8 billion exceeded that of the top 10 offline retailers, which stood at $12.6 billion for the same period.

2. Reasons for rise in digital Marketing in India

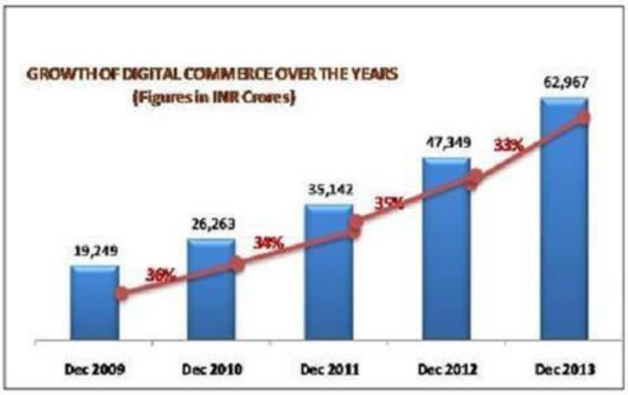
Increase in internet penetration in the country has led to a substantial growth of other digital industries such as e- commerce, digital advertising and so on. Latest trends in digital marketing in India in web usage, mobile and search,social networking, shopping and online video are shaping the Indian digital marketplace and what it holds for the years to come.

Fig 1: India is now world third largest internet population



By adding 17.6 million users in 2013 and exhibiting a year-over-year increase of 31%, India becomes to be the world's third largest internet population leaving behindJapan. While in 2012, Mobile Internet grew 111 per cent, during 2013 the growth was 63 per cent. India registered a YoY of 28 per cent in 2012 and a YoY growth of 39 per cent in 2013 as far as the number of internet users isconcerned.

Fig 2: Growth of Digital commerce over years



While in December 2007, the digital commerce market stood at Rs. 8,146 crore, by December 2012 it was worth Rs. 47,349 crore.
By December 2013, digital commerce in India grew to a whopping Rs. 62,967 crore.
The segment witnessed 35 per cent growth between December 2011 and December 2012 while it grew by 33 per cent between December 2012 and December 2013.

Fig 3: Online retail is on the rise

60% of web users in India visit online retail sites. Of the total online market products, consumer durables account for 34 per cent, apparel and accessories 30 per cent, books 15 per cent, beauty and personal care 10 per cent, and home and furnishing 6 per cent. Over 50 per cent of sales in these product categories take place in non-metro cities.
Fig 4: Majority of screen time still captured by Social media

- 86% Indian web users visit a social networkingsite
- 214 minutes are spent on Facebook by anavaerage user
- There is 28% increase in facebook visitors in thelast 12 months

- 59,642,000 users visited facebook on thier Pc's

Facebook continues to be the number one socialnetwork and LinkedIn as number two while Pinterest and Tumblr are the fastest growingnetworks.

Fig 5: Entertainment and online video continues to grow

- 74% of internet users in India visited anentertainment site
- 31.5 million viewers watched videos on YouTubemaking it the number one destination for videos
- 27% increase in the India online video Audienceover a year
- 54,025,000 people watched an online video ontheir Pc's

3. Indian companies using digital marketing forcompetitive advantage

Nestle's Every Day was facing threat from liquid milk in North-East. It has taken help of Facebook. Its teams created a three-second cinema graph- an image with some moving shots. It targeted women age 21 and above. The result was five percentage point increase in purchase intentand 14 point increase in ad recall.

Coca-Cola did a live video for its orange flavoured Fanta. Maybelline did a three dimensional video. Royal Enfield shot a 360 degree video for its new bike Himalayan. Lakme used a slide show format (its five times lighter thana video), and Cornetto made a three second Cinemagraph.

Pepsi Co. Beverages used Facebook during cricket World Cup in 2015 for brand building and generating the sale. Pepsi's Facebook campaign was the most recognised brands during the event. Pepsi Co. is using social media in a big way for building its brand equity.

A research conducted by Adobe and CMO Council has revealed that growing number of marketers in India are leveraging digital marketing to increase their competitive advantage.

According to the study, India leads in the confidence in digital marketing as a driver of competitive advantage. Ninety-six per cent of the Indian marketers have high confidence in the ability of digital marketing to drive competitive advantage. It is among the highest in Asia- Pacific APAC with only Australia leading with 97 per cent,the research said.

However, while Indian marketers believe that the key driver to adopting digital is a growing internet population (70 per cent in India against 59 per cent in APAC), their belief that customer preference and digital dependence drive the adoption of digital, and that digital can engage the audience, is lower than the APAC averages, it added.

According to 2014 Adobe APAC, India is an emerging leader in Digital Marketing, it has dipped in its own performance in 2015 as compared to the previous year. Itis important to note that India scored much higher than the APAC average in 2014.

Customer preference and digital dependence would increase along with the increase in penetration of internet in the Indian market.

The study revealed that compared to their APAC counterparts, Indian marketers are receiving lesser support from channel and sales teams for increasing digital spends.However they are doing better as compared to 2014 suggesting that departments that have a customer interface are realising the importance of digital marketing in augmenting their efforts.

4. Impact of technology growth on traditionalmarketing

Due to technologies advancement at an exponential rate, the marketing paradigm has shifted to newer more customer and content centric approaches being delivered on the digital platform.

Traditional marketing like advertising, public relations, branding and corporate communications, lead generation etc. broadly relies on television, radio, telephone, and printmedia and telephone as a delivery medium. Contrary tothat modern marketing techniques leverage the power of Internet and social media to

reach to a more targeted set ofaudience.
Modern marketing techniques provide cost effectivemarketing platform with ability to reach millions of customers in a very short span of time. Businesses which invest heavily on only on digital marketing as their marketing delivery tool, can substantially hurt their overallmarketing success.
For success of any marketing campaign it should fully harness the capabilities of various marketing techniques available within both the traditional and modern marketing.
Activities like push marketing, lead generation, launch events and trade shows, television and print media can be used to integrate with social computing, customized content and control budget etc. to effectively reach the identified market segments and convert them into paying consumers.
With the rise of social media, changing business landscapes, and introduction of more educated customers, the businesses need to rethink about their marketing strategies and lay out a multi-channel marketing plan that carefully lays out an optimal mix of both the modern and traditional techniques best suited for the business.

1. Reasons for failure of digital marketing instartups

Probable reasons for failure of digital marketing in startupsare as follows:
Measuring the Cost per Acquisition: A large percent of business owners fail to define key metrics and don't put relevant structure including using relevant tools to measure the progress of their digital marketing campaigns. Entire focus of measurability is on increasing reach in terms of views and visitors. While reach is necessary but it's not sufficient. Imagine if your website receives more than double the traffic of your competitors but if your website conversions are less than half of your competitors - you would still be having lower returns than your competitors. In addition to pay attention to increasing your websitereach, pay attention to the entire customer funnel so as to meet your ultimate objectives is the key to success inleveraging digital media.
Believe that Digital Marketing belongs to Technology Department: A large number of startup founders don't believe that digital marketing is a marketing function. But they treat it as a technology piece. Although digital marketing leverages technology for reasons such asmeasurability or scaling up, it's still a marketing function. Expecting from technical team to create success of digital marketing is an obvious recipe for failure. This problem is not limited to startups even large corporations are also the victims of such treatment of digital marketing.
Think that outsourcing is the solution: Assuming that outsourcing will take care of end-to-end execution is oneof the reasons for high failure rate of agency-client relationships. This problem is bigger with the large corporation which are using outsourcing. By educatingclients about the appropriate approach to leverage digital helps them restructure their thinking and processes related to digital marketing.
Hired a Digital Marketing professional on your ignorance**:** Hiring one or more digital marketing professionals without having clarity on overall digital marketing strategy is almost similar to outsourcing digital marketing responsibility to an external agency. Whether startups or marketing professionals they have to realize that they have an important role to play in creating digital marketing strategy, whether they want to work with an external agency or build an in-house team.
Doing Social Media because everyone else is doing**:** Like in other business functions, our decisions in digital marketing are largely influenced by what others are doing or what's popular at present.
Just because Social Media is the talk of the town is not a sufficient reason for a startup to invest in it. The choice ofa digital media platform should be based on business objective and target audience rather on the popularity of a medium. Social Media may be useful for brand promotion for a large organization while Search Engine Marketing may be more appropriate for a startup if lead generation is the primary objective.
Expect overnight Success**:** Influenced by mind-blowingstatistics associated with digital media platforms and by ever growing number of online businesses, every organization who embark upon the journey of digital marketing believes that it's a magical wand, which will solve their sales & marketing objectives overnight.
Although digital media is a powerful weapon to accelerate business growth, a sustainable success in digital marketingnormally takes few months if not more and this journey to success would have involved few failures. Digital Marketing avenues such as Search Engine Optimization (SEO) require couple of months before a business can see good results. Expecting quick results normally leads to giving up on the not-so-visible but real progress campaigns, which would have produced desired goals if given the time it requires.
Underestimate the importance of Content**:** Digital marketing campaigns relies mainly on regular flow of high quality, relevant content, the requirement for which is highly underestimated by a large percentage of small businesses.
When faced with scarcity of content, either these businesses end up compromising on the quality of the content or end up giving up their digital marketing campaigns.

5. Commandments of Digital Marketing

Consider Digital strategy as a part of Brand Strategy: Generally for brands, digital strategies are created in a complete vacuum from the overall brand strategy, or worse, no digital strategy is crafted at all. Since digital is the glue that ties the entirety of a marketing plan andtactics together, anything that happens online needs to ladder up to the higher objectives of the brand. An effective digital strategy is typically composed of a group of sub strategies to effectively plan and account for owned,earned, shared, and paid assets**.**

Innovating the Brands**:** Majority of brands have some formof goal around innovation. And that's important because innovations drive the business forward But innovation mean better not new. Your strategy should help you select your tactics, not the other way around. If you are seekingto use a tool or platform because you think it is innovative,and can't identify how or why it works for your audience, you're worshipping the shiny object and are destined to fail.

Put Interest of the Consumer First than their Own: Too often marketers approach digital from the mindset of their own (or their brand) objectives. Users crave value, utility, and having their needs met. This is especially true online where fractions of a second can make or break a potential engagement. Instead of focusing on your needs, try and determine what your users want and how you can insert your brand or your content into their lives in a way that makes sense.

Don't Imitate your competitors: Just because your competitor is doing something doesn't mean you should too.

Acknowledge the Importance of Smart Phone and Tablet: Usage of mobile phone and tablet has increased extensively. About 85% of HCP's are using a tablet in theirpractice and 1 in 3 people in the US now own a tablet as well. Increasing use of smart phones means your brand hadbetter be ready to provide mobile optimized content, tools, and resources for your users.

Understand the Difference between Metrics and Analysis: There is difference between metrics and analysis. Metrics are just data. Metrics are just numbers. Analysis tells you what to do next. A common misunderstanding is that they are one and the same. Google analytics may be free, but can't give you any insight into what the numbers mean or where to go from here. Too often marketers collect (or simply ignore) data and give no thought (or budget) into understanding it. The digital medium allows you to benimble and react to your users with far greater speed and efficiency.

Maintain healthy relationship with stakeholders: Treat your employees, suppliers & distributors etc. accordingly so thatthey feel as a partner. Healthy company – client relationships are a true partnership where everyone feels comfortable bringing ideas and co-authoring success. Treatyour organization people fairly and with respect and they'llbring results for you. With their help if you succeed, tell them. When they screw up, do the same.

Share your content with those who need it: Use wants to use contents as per their convenience when and where theywant. You should take it positively if they decide to copy, share, link, or tweet it elsewhere. Your contents should be sharable and videos should be post able. Because your customers are true amplifier for your brand than anyone else.

Conclusion:

Digital marketing has increased in last a few years in India.People have different views about it. But the fact is this digital marketing has tremendous potential to increase in sales provided businesses should have knowledge to implement it in right way. Benefits like increased brand recognition and better brand loyalty can be gained by effective digital media plan. Digital marketing campaign help in reduction in costs, boost in inbound traffic and better ranking in search engines.

References:

[1] TS, Anoop (Dec. 01, 2014). Digital marketing communication "mix". www.linkedin.com/20141201185 400-100431809-digitalmark.

[2] Murthy, Srinivas (Jan. 06, 2016). Always keep your customers close and your loyalist closer. articles.economictimes.indiatimes.com > collections > digital marketing.

[3] Chathurvedula, Sadhana (Dec. 16, 2015). Indian ecommerce sales to reach $55 billion by 2018. www.livemint.com > customer > research.

[4] Bailay, Rasul & Anand Shambhavi (April 11, 2016). Japan's Rakuten opens office in Bangaluru; poaches mid level managers from Flipkart, Amazon. Economic times bureau.

Why digital marketing is on rise in India? Let's talk numbers. dsim.in/blog/ why-digital- marketing-is-on-rise-in-India-lets-talk-numbers. Feb. 18 2014.

***

12

THEORETICAL ASPECTS OF MARKETING STRATEG

Subrat Kumar Parida

Abstract
In information society era market competition assumes much bigger role in anticipating long-term development of the organization, with a basis on stra-tegic management, business process efficiency and organizational capital. The company operating in a modern market economy, in order to improve results,must constantly analyze the internal and the external environment and competitors' actions, investigate consumer needs and consumer trends and take into account the following factors for continuous improve- ment of marketing strategies. These factors are variab- le and dynamically changing, therefore the company must constantly scrutinize its work not only today, butfor the future as well, to anticipate events and opportu-nities to benefit and protect itself from everything thatprevents its success and what is necessary in order tonot only survive, but also to achieve its set objectivesand maintain competitive advantage. The article ana-lyzes the concept of marketing strategy, classificationof marketing strategies, strategic marketing planningprocess, evaluation and control of marketing strategy.Marketing strategy is one of the functional strategies of the company, that collectively make up a commonbusiness strategy. However, the value of the commonmarketing strategy –business strategy – is very high, whereas the control key marketing relationships withcompanies outside of the support functions - deliveryof the goods on the market and sales. Management there is a high education and approaches to a strategyof diversity.
Keywords: marketing strategy, strategic mar- keting process, evaluation and control of marketing strategy.

Introduction

Strategic marketing is a philosophy that leads to the process by which organizations, groups and in-dividuals obtain what they need and want by identi- fying value, providing for it, communicating it and delivering it to others. The basic concepts of marke- ting are customers' needs, wants and values; products, exchange, communications and relationships. Marke-ting is strategically concerned with the direction and scope of the long-term activities performed by the organization to obtain a competitive advantage. The organization applies its resources within a changing environment to satisfy customer needs while meetingstakeholder expectations. In the world market the rapid penetration of new markets, increasing level of competition are among the factors that encourage firms to find more effective ways to conquer the global market as well asdevelop the internal market. For businesses seeking asuccessful and long-term participation in market, it isexpedient to organize their marketing activities; there-fore they need to choose a clear marketing strategy. Selection of marketing strategy does not end at the company, as it is essential to evaluate and monitor theselected marketing strategies constantly. In addition to the assessment and effective control, even a well- chosen marketing strategy may be ineffective without adjustments done taking into account market develop- ments and the assessment and monitoring. Marketingstrategy planning, assessment and control are often among the most pressing problems at enterprise. In order to achieve marketing objectives the company has set itself, it is necessary to organize not only a sys-tematic and purposeful evaluation, but also an intelli-gent control. Marketing strategy evaluation and con- trol makes it possible to solve the problem of when and how to adjust, what indicators to select to assess the strategic marketing activities of the company in order to achieve the expected results. Although eva-luation of marketing strategy and control of business activities are necessary, but not all companies actually implement that in their own activities. In the literatu-re there is a lack of a common approach to this, what indicators should be carried out on the basis of this assessment. A common approach in this respect is re-garded as a theoretical problem of research.

The aim of this research is to assess theoreti- cal aspects of marketing strategy. To achieve the aim,the following objectives were set:

1. To analyze marketing strategy concept;
2. To evaluate classification of marketing strate-gies;
3. To assess process of planning the strategic marke-ting;
4. To analyze process of evaluation and control ofmarketing strategy.

The subject of the research is marketing stra-
tegy.

Dr. Subrat Kumar Parida. Assitant Professor, Global Institute of Management, Bhubaneswar

The object of the research is theoretical as-pects of marketing strategy.
Research methods are analysis of scientific lite-rature, analysis of the data.

1. Analysis of marketing strategy concept

Marketing is management function responsib- le for identifying, anticipating and satisfying custo- mer requirements profitably. Strategic marketing is aphilosophy and a set of techniques that address such matters as research, product design and development,pricing, packaging, sales and sales promotion, adverti-sing, public relations, distribution and after-sales ser-vice.

Strategic marketing helps to define the organiza-tion's business. Strategic marketing is concerned withproblem solving and customer benefits. The organiza-tion must be able to answer the following questions:

- What is the problem customers are trying to sol- ve?
- What benefits do customers seek?
- How well does the organization's product solve this problem and provide these benefits?

A statement that the organization is in the mo-vie business is not very useful. An organization isnot in the movie business, because that says nothing about customer needs.

Marketing strategy is the best approach to be- gin to reveal the strategy and strategic marketing con-cepts, the various interpretations of the scientific lite-rature (see Table 1).

Table 1

Marketing strategies in the concepts of scientific literature

Author	**Definition of strategic marketing**
General Electric Organization (1952)	Marketing is a philosophy that encourages the organization to ensure that the needs and wants of customers in selected target markets are reflected in all its actions and activities while recognizing constraints imposed by society. This marketing concept first received formal recognition in 1952 byone of its leading exponents, the General Electric Organization. The marketing concept: . . . Introduces the marketing man at the beginning rather than at the end of the production cycle andintegrates marketing into each phase of business. . . . marketing establishes . . . for the engineer, thedesign and manufacturing man, what the customer wants in a given product, what price he is willingto pay and where and when it will be wanted. Marketing will have authority in product planning, pro- duction scheduling and inventory control, as well as in sales distribution or servicing of the product
Anderson (1982)	The real lesson of a strategic marketing philosophy is that better performing organizations recognizethe basic and enduring nature of the customer needs they are attempting to satisfy. It is the technolo-gy of want satisfaction which is transitory. The products and services used to satisfy customer needs and wants change constantly.
Ingman (1992)	According to Ingman (1992), strategic marketing is one of the functional strategies that together constitute an overall business strategy. However, the importance of marketing strategy is very high over all business strategy, because of control of key marketing relationships with organizations out- side of the support functions – delivery of the goods to the market and sales.
Buttle (1993)	Marketing strategy – the overall (corporate and marketing) action program, including all elementsof marketing complex in order to clarify undertaking to set goals and objectives. This is a logical continuation of the business plan that combines a number of interrelated decisions.
Doyle (2000)	Strategic marketing is the management process that seeks to maximize returns to shareholders by creating a competitive advantage in providing, communicating and delivering value to customers thereby developing a long-term relationship with them. The specific contribution of marketing in theorganization lies in the formulation of strategies to choose the right customer, build relationships oftrust with them and create a competitive advantage. A marketing strategy consists of an internally integrated but externally focused set of choices about how the organization addresses its customers in the context of a competitive environment.
Hambrick and Fredrickson (2001)	Marketing strategy has five elements: it deals with where the organization plans to be active, how itwill get there; how it will succeed in the marketplace; what the speed and sequence of moves will be; and how the organization will obtain profits.

Kotler (2003)	Marketing strategy is marketing logic according to which the business unit is marketing. Marketingstrategy focuses on target customers. The company chooses a market, divide it into segments, se- lect the most viable ones and consolidates its forces in the service segment. The company creates a marketing mix, using the tools at its disposal: product, price, distribution, sales support. In order to establish the best marketing mix and be able to take appropriate action, the company performs mar-keting analysis of marketing plans and carries them out. It carries out these activities by monitoring the environment and adapting to it.
Pranulis (2008)	Marketing strategy is consistently located and coordinated set of marketing actions, aimed at mee- ting the long-term marketing goals.
Ramanauskienė (2008)	Marketing strategy is a logical means by which the organization seeks to solve marketing problems,the scheme. It consists of individual target markets, product positioning, marketing complex betwe- en costs and marketing strategies.
Baker (2008)	The strategic marketing plan is a model of a unit's position in its market relative to competitors andcontains a definition of market needs, the objectives to be achieved, the strategies to achieve the ob- jectives and resources required to obtain the desired results.

Some researchers of the marketing strategy, forexample, Ingman (1992), highlight the significance ofmarketing strategy. Chlivickas (2008) notes that mar-keting strategy development often is one of the most important aspects of business, because it is necessaryto achieve company goals, to organize activities in a focused and targeted manner. Marketing strategy ad-dresses specifically how to act to achieve the desired results. Market conditions are particularly important,because marketing strategy allows the assessment of market dynamics and responding to its changes. Ra- manauskienė (2008) argues that marketing strategyis aimed to adjust the market segments on which the organization plans to focus its efforts. These market segments differ in their needs and demands, the reac-tion to the marketing measures and profitability. The organization must possess certain skills to be able to target its resources and energy at preparing these seg-ments, where it could obtain the maximum benefits ofcompetition. For each target segment should be crea-ted a separate marketing strategy. Ramanauskienė furt-her notes that marketing strategy focuses on targeted customers. The organization chooses the market, divi-des it into segments identifying the most viable ones and focuses attention to those segments of the serviceand satisfaction. It will draw up a marketing complexconsisting of the controlled components: product, pri-ce, distribution and product support. In search of the optimum marketing mix and its realization, the orga-nization carries out an analysis of marketing informa-tion, marketing organization, marketing planning andcontrol. In the following sequence of organizationof marketing environment, there is adaptation to the changes.

Virvilaitė (2009) notes that marketing strategyis one of the functional strategies of the company thatcollectively make up an overall business strategy. Ho-wever, the value of the common marketing strategy, the business strategy, is very high, whereas the con- trol key marketing relationships with companies are outside of the support functions – delivery of the go- ods to the market and sales. On the other hand, the company's strategy must be appropriate, i.e., focus on certain specified objectives of the company. Por- ter (1998) highlights the competing objective. In his view, marketing strategy must be competitive. Its pri- mary purpose is to carry out offensive or defensive action creating a strong market position, as well asto secure the return on the reversibility. Porter (1998)believes that the strategy is an answer to two basic qu-estions: 1) what is the long-term competitive advanta-ge, 2) how to build long-term competitive advantage.In response to these questions, it can be argued that long-term competitive advantage will be possible on-ly when it benefits the consumer as well as a unique and profitable enterprise and is hard to copy. Therefo-re, a company must continually create new competiti- ve advantages, thus abolishing the advantages of com- petitors. On the other hand, this is marketing strategy. In addition, marketing can be perceived as a top strate-gic management function (Porter, 1980). Thus, marke-ting strategy is a key strategic aspect of corporate go-vernance, without which the company management cannot be sufficiently effective (Virvilaitė, 2009).

1. Classification of marketing strategies

Sun Tzu is one of the most renowned strategists in history. Although his strategy was about warfare, the principles are still used today in Asia. Sun Tzu said these are the considerations to achieve victory:

Know when to fight and when not to fight. The-re is time for everything. Act with forethought and dispassion instead of succumbing to emotion. Super-iority of numbers or position is not always necessaryfor victory. The one who understands the rhythm of the battle and is able to freely utilize other natural ad-vantages can achieve victory with a smaller force or inferior position.

Get wholehearted support of your troops. Theone who understands how to get the unconditional support of his troops by creating a common objectivewill have a great advantage over his opponent.

Be well prepared to seize favourable opportu-nities. One must sharpen his intuition in order to re- cognize favourable opportunities and be prepared to seize them.

Free yourself from interference. If a superior is constantly giving orders to his general (manager), the general cannot fight an effective battle. Freedom from such interference is essential. If a general has been chosen well, he will insist on being given the freedom to win the battle.

When the time is right, act fast and decisively. Do not act precipitously, but do not hesitate when theconditions for victory are present.

Various classifications of marketing strategies can be found in literature. Choice of type of marke- ting strategy may affect the evaluation process. Rese-archers classified marketing strategies as follows:

1. The main marketing strategy.
1. General competitive advantage in the acquisitionstrategy.
2. Strategies to compete under certain market sha-re.
3. Marketing strategy for its intended market.
4. Positioning strategy.
5. Strategy of the complex marketing elements.
6. Table 2
7. **Classification of marketing strategies**
8.

Marketing Strategy	Types of Marketing Strategies	Definition
The main marketing strategy	Deep penetration strate- gy (an old product – an old market)	This strategy is effective if the market is still unsaturated with products. When selling old products in the old market, the advantages can be achieved only by reducing costs of production and by selling goods at lower prices than compe- titors.
	Market expansion stra- tegy (an old product – a new market)	Applying this strategy, the company can increase sales of old products in newmarkets or available new market segments.
	Trade creation (mo- dification) strategy (new product – an old market)	Essence of this strategy: new product development for the old market.
	Diversification strategy(new product – a new market)	The strategy is used to avoid the manufacturer's dependence on one product ormarket.
General competitive advantage in the acquisi- tion strategy	Expenditure leadershipstrategy	Through expenditure strategy, the company bases its activities on resources, which guarantees the lowest cost in industry in which it operates. The ability toefficiently manage resources allows the company to achieve the lowest opera- ting costs in their field and at the same time to acquire the long-term competitive advantage.

	Differentiation strategy	Applying the differentiation strategy, the company aims at uniqueness. In mostcases it is intended to differentiate the company's offered product so that it would be perceived by consumers as unique. The essence of differentiation is profit entity is to receive, creation of customer value, which is different and hig- her than that proposed by competitors.
	The concentration of the costs and the diffe-rentiation	In this case, the company focuses its efforts on any aspect of a restricted areaof competition within the industry: consumer group, a specific product or speci-fic geographic market. The objective is a market segment as well as serving it better than the competitors. Competitive advantage can be gained by reducing costs or increasing product differentiation. The company has reached a competi- tive advantage when competitors cannot serve target market equally well
Competing strategies by market share	Market leader strategy	Usually one company is ahead of competitors and has taken the largest share of the market. This situation gives more freedom of choosing to compete against competitors in the targeted strategies. The market leader has more options thanany other to increase market share, etc. That is, it attracts new customers or encourages existing customers to buy more, or more often. The market leader in advertising and other marketing activities to encourage consumers often cho- oses just the goods.
	Market strategy for the actor	The main aim for the actor is to become a leader as soon as circumstances per-mit. Market actor is strong enough and has sufficient resources and expertiseto become a leader. It may also increase market share by directly attacking the selected competitor (usually a leader).
	Market followers stra- tegy	Often, the market leader's product or marketing action is copied by the market follower. The strategy is two-fold: some basic concepts and sequence of steps taken by market leader are copied, and everything related to the market leader in product and marketing activities is directly followed, trying to sell goods on behalf of the leadership. All market followers have one thing in common: they do not intend to occupy the leading position, but try to use the leader's proven action in the market. Therefore, over time they are always a little behind, and the same strategy is passive, dependent on actions of market leader.
	Market niche strategy	Market niche strategy is suitable in almost all markets. The primary goal of competing is to adapt to specific market segments of small consumers. Sales vo- lume in the small target market usually is not large, but market niche filler often works very profitably. Market niche filler strategy is used by small businesses, as large companies are not very interested in small segments of the market and not trying to meet their distinctive needs.
	Non-differentiatedmar-keting strategy	Non-differentiated marketing means that the enterprise markets as a homogene- ous whole and expects the same reaction to marketing activities from all consu- mers. It may be that: a) a professional user will not notice the difference b) such differences are insignificant in offering specific products, c) the company does not have the means or desire to adapt to different needs.
	Differentiated marke- ting strategy	In differentiated marketing, different market shares of the company are offered different things. Usually more or less all the elements of marketing complex are different: a different (often with a different name) product has a different price when sold in different places and in different ways; it is not so well advertised and offered.
	Concentrated marke-ting strategy	Concentrated marketing has long been considered to be primarily the small busi- nesses strategy, because they can "live" with relatively small market segments. The company's success depends on the ability to identify and properly meet the

		specific needs of that segment.
	According to product use	Positioning is a creative activity, therefore it is difficult to express it in a struc- tured way. Positioning can be by product use, consumer goods, on the basis of direct comparison, etc. Positioning decisions cannot be made before the perspec- tive, and in particular the strategy of competitors, is analyzed. Nor can those de- cisions be made before the selection of the target market, as provided for in the consumer segment of the properties owned and positioning opportunities. On the other hand, positioning strategy should be created before making decisions on specific elements of marketing complex.
	According to consu- mer goods	
	On the basis of direct comparison, and others	
	Product strategy	In marketing with the complex element of "product", strategic decisions are ma- de in product mix, quality, and product names in use.
	Price strategy	In marketing with the complex element of "price", strategic decisions are made on new trade price ("penetration" and "picking" strategy), reduction of payment of the issues.
	Distribution strategy	In marketing with the complex element of "distribution", strategic decisions intensify distribution (exclusive, selective, intensive distribution strategy), distri- bution control system (system of ownership and control methods) issues.
	Support strategy	In marketing with the complex element of "sponsorship", strategic decisions are made in the choice of a common strategy in support ("push", "pull" or mixed), budget allocation, the individual actions to promote the comparative values.

As it is clear from Table 2, one can distinguish different types of marketing strategies. Despite of what marketing strategy the company has prepared; itshould be constantly measured and monitored.

3. Strategic marketing planning process

Strategic marketing planning presents the ma- nager with a major challenge, as it calls for a delicatebalance between short-term efficiency and long-term effectiveness (Baker, 2008).

Strategic marketing planning is based on funda-mental measures to achieve the objectives of the plan-ning firm, providing the access to markets and the useof marketing programs that meet its objectives.

Tactical marketing planning consists of the to-ols for strategic marketing plan. Preparation of the marketing program provides effective strategies to im-plement the plan (Palubinskas, 1997).

Žvirblis (1992) notes that marketing planning is an activity of different durations, it also varies by the significance of the various companies and marke-ting objectives of the program. Distinction is made between the strategic plans (the future outlook), the medium-term plans (e.g. 2-5 years) and short-term (annual, and monthly) plans.

It is also noted that planning, like any activity,is based on the decision-making. Preference is given to strategic marketing decisions. Marketing planningcycle is as follows (Pranulis et al., 2000):

- strategic marketing plans;
- tactical plans of the implementation of strategies;
- tactical plans;
- control of the results;

- use of the results, preparation of a new strategicand tactical marketing plan.

Pranulis and others (2000) note that by plan- ning of marketing activities, a widely recognized fra-mework is proposed, which relates to the most impor-tant aspects of marketing:

1. selection of target market;
2. choice of position;
3. choice of individual marketing mix elements for functional strategies;
4. choice of competing policy.

There is also noted that to target market the fol-lowing marketing strategies are applicable:

- non-differentiated marketing;
- differentiated marketing;
- concentrated marketing.

The authors argue that in application of non-dif-ferentiated marketing strategy, the entire market is considered to be consistent and all users are expectedto exhibit the same reaction to marketing activities. This occurs when:

- specialists will not notice the difference;
- such differences as insignificant when offering specific products;
- company does not have the means or desire to bet-ter adapt to different needs.

Non-differentiated marketing strategy is rarelyeffective. Experience shows that there are not many cases when one fits all. There are increasingly more and increasingly smaller market segments with speci-fic needs. Thus, at sufficiently strong competition, ver-satile offers look less attractive.

Differentiated marketing, different market sha-res of the company offer different elements of marke-ting mix: buying a different (usually with a different product name) product that has a different price, the merchandise is in different places and in different wa-ys, unlike advertised and offered to consumers.

When implementing a differentiated marketingstrategy, the company needs a number of resourcesto adequately investigate and segment the market andadapt its activities to different market segments. The-refore, a differentiated marketing strategy suits most large businesses.

Concentrated marketing strategy has long beenconsidered to be primarily the small businesses strate-gy, because they can "live" with relatively small mar-ket segments. The company's success depends on theability to identify and properly meet the specific ne- eds of the small segment (Pranulis and etc., 1999).

Fierce market competition encourages compa-nies to prepare marketing strategies and marketing plans. According to them, marketing management is systematically organized, which includes all corpora-te marketing activities of planning, implementation and control (see Figure 1).

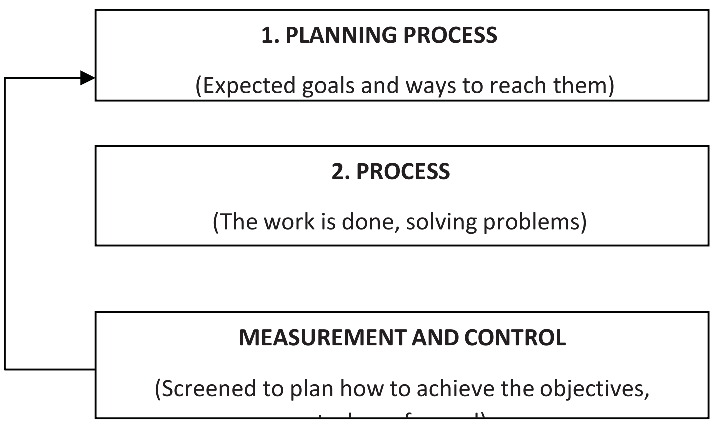


Figure 1. Typical scheme of marketing management process(drawn with reference to Pranulis and etc., 1999)

The development of marketing strategies is ba-sed on a reliable analysis of the current and anticipa- ted marketing situation, as well as the operationaliseddefinition of marketing goals in terms of time and content. Referring to this data, we will design the mar-keting strategies. Five strategy levels are taken into consideration:

- Specification of the product-market combination(market field);
- Definition of the kind of market influence (marketstimulation);
- Definition of the degree of differentiation of themarket influence (market parceling);
- Definition of sales areas (market area);
- Definition of the competitive advantages whichare to be achieved (competitor reference).

To define the strategy we use – among others –portfolio models in order to ensure an ideal allocationof resources in a market-related regard. Concrete sa- les-political measures are deduced from the selected marketing strategies in form of a marketing mix and are in line with the defined marketing area goals.

Every company performs a series of actions that are wholly or at least partially attributable to mar-keting field. The company develops and improves pro-ducts, regulates their prices, sales. In addition, effortsare made to explore the needs of consumers through advertising or other means to establish and maintain. All of these activities can be carried out on the spot or be planned. In the first case, each work can be carried out professionally, but not necessarily in line with ot-her aspects of the business. In the second case, the marketing field functions are deliberate and coordi- nated among themselves and with all the company's activities. According to Pranulis (2008), particularly the business planning enables one to connect and har-monize the various parts into a coherent whole, the- reby achieving a better overall result. The definition of marketing planning could be such: the marketing targets, product selection, market segmentation and marketing programs for each product's development for the next period. This definition is sufficiently bro-ad and includes strategic and tactical marketing plan- ning. Different authors provide different structures of marketing plan. These structures are what is marketedis the area of application of the marketing plan, i.e. ser-vices or production. This paper will deal with the mostpopular marketing plan structure and carried out com-parative analysis. According to Pranulis (2008), the general strategic plan covers the entire organization'sperformance and provides a primary goal. Since theyare sought by various divisions within the company, it is necessary to move from general company objecti-ves and overall strategy to strategies for each functio-nal area (finance, marketing, production, etc.). Thesecan be further detailed in accordance with each area of activities. This reveals the consistency of a typicalmarketing planning scheme that is given in Figure 2.

According to Winer (2007), in creating stages of strategic marketing planning, one first has to formu-late marketing purposes, marketing objectives prima-rily in market segmentation and provide for a target market. One or more of the target markets provide a competitive advantage by means of acquisition. The most important component of marketing strategy is value to consumers. In order to implement marketingstrategies, marketing mix is prepared. In addition, it should be noted that the successful implementation of the strategy will depend on the relationship with customers.

Hooley, Saunders and Piercy (2004) proposed strategic marketing planning process. By preparation of marketing strategy, which is a priority for the in- dustry and a company, internal analysis of the possi- bilities, exploring the strengths and weaknesses of company in comparison to competitors, are taken intoaccount. Based on the analysis of data, basic strategyin line with business and marketing objectives is selec-ted. The next step following the market segmentationis the target market. At the same time the company chooses a competitive advantage in the acquisition strategy, so that it could self-position the market better than its competitors. Marketing strategy depends on the organizational structure of the marketing depart- ment. Marketing department staff is responsible for strategy implementation and control. Strategies mustbe implemented and marketing mix has to be develo-ped. Therefore, Hooley, Saunders and Piercy (2004),in contrast to Winer (2003), emphasize the necessity of control phase of the strategic marketing planning. Dalrymple (2004) offers marketing planning process,stressing the importance of marketing informationsystems for strategic decisions. Marketing planning stages involve the following procedures: the framingof company goals and objectives, situation analysis carried out in order to highlight the strengths and we-aknesses of the business side, the distinction betwe- en marketing strategies for each activity. Dalrymple points out that the company must first decide whatit wants to do, what strategies to choose, and only then look for ways to do this, and what tactics to cho-ose. The author emphasizes the marketing programs and the verification and monitoring phase. Rachman (1988) in the marketing planning process shows that the impact of macro environment is factor in the de- cision-making. Marketing planning stages are iden- tified as follows: having determined the objectives, analyzed macro environment and evaluated abilities, the company can create a marketing strategy that willgive it an advantage in the market. Inspection and con-trol of this process is necessary.

Kindurys (2002) notes that in order for custo- mer awareness to be present in the strategy of the company, it is essential that the strategic initiative inc-ludes: 1) the company's business mission, 2) its goalsand strategies to achieve them, 3) specific strategies for the implementation of agreed plans, 4) functionalplan section role in its implementation. All this helpsto better understand customer needs, gives an oppor-tunity to analyze the use of the proposals and their reasonableness. In this case the company will recei- ve income that will lead to better allocation of resour-ces and effective activity. The structural elements of marketing planning process as proposed by Kindurys(2002) are such:

1) market and organizational leadership,
2) preparedness planning,
3) preparation of strategic options,
4) approval of the plan,
5) plan of implementation management (consistingof control and aspect).

As it is clear from the strategic marketing plan-ning process, examples of different authors present different marketing decision-making patterns to evol-ve different stages of the decision-making. However,the examples given in summary may be more com- mon larger strategic marketing planning stages (see Table 3):

1. Formulation of company mission.
2. Undertaking of long-term targets.
3. Survey of company outlook.
4. Company's marketing targets.
5. Designing of marketing strategy.
6. Monitoring and evaluation.

It should be noted that Assael (1995) compiledmarketing strategy development models, with empha-sis on marketing strategy and control. According to Meffert (1994), analysis of the information is the firststep in planning a strategy. The stage is assessed, reve-aling the future opportunities and identified potentialrisks. An analysis of the situation is done, the long- term company and marketing objectives and strategyare formulated (defined market segments are selected, the principal behaviour of competitors, customers, business is identified), which are then implemented. The difference between external and internal imple- mentation of measures is that the first one focuseson actions with customers, the second – on the follo-wing actions to organize, coordinate and control. In Meffert's point of view, the control phase has exactlythe same importance as information analysis, setting objectives and strategy formulation. Vitkiene (2004) in the marketing plan looks at the structure of posi- tions of the services marketing. According to the aut-hor, marketing planning is concerned with two major service companies' material aspects of environmental conditions (internal and external) and the anticipationof these changes in the corresponding factors. Marke-ting forecasting is what is unpredictable. The main purpose of forecasting is to reduce the risk when ma-king the important marketing strategy steps. Before proceeding with it, service marketing plan should ans-wer five important questions that are recommended by Cooper and etc. (1993):

1) What do we want?
2) Where are we now?
3) Where do we want to get?
4) How do we go there?

Where do we go?

The researchers distinguish three stages of mar-keting development: planning, implementation and monitoring. Authors' point of view is that the control stage consists of measuring and comparing the resultswith those expected, positive and negative deviationsof assessment, a positive deviation of exploitation.

Table 3

Strategic marketing planning stages according to different authors

Strategic marketing planning stages	**Granules and ot- her, 2008**	**Winner, 2007**	**Dalrymple, 2004**	**Rachman, 1988**	**Assael, 1995**	**Meffert, 1994**	**Vitkienė, 2004**	**Berkowitz, Kerin and Hartley , 1992**	**Kindurys, 2002**
Formulation of company mission	+		+		+	+	+		+
Undertaking of long-term targets	+	+	+	+	+	+	+	+	+
Survey of company's outlook	+		+	+	+	+	+	+	+
Company's marketing targets	+	+	+	+	+	+	+	+	+
Designing of marketing strategy	+	+	+	+	+	+	+	+	+
Monitoring and evaluation	+		+	+	+	+	+	+	+

According to data provided in Table 3, it can be stated that almost all authors (Pranulis and others,2008; Dalrymple, 2004; Rachman, 1988; Assael, 1995; Meffert, 1994; Vitkiene, 2004, Berkowitz, Ke-rin and Hartley, 1992; Kindurys, 2002; but not Winer, 2007) an important strategic marketing planning sta- ge consider being marketing strategy monitoring and evaluation. In support of this provision of many rese-archers, it can be argued that without monitoring and evaluation of marketing strategy, planning process isnot complete: it does not assess the impact of marke-ting strategy on the business and marketing results and relevance of marketing objectives, marketing stra-tegy and the absence of control, it would be difficult to decide on the follow-up marketing strategy, compa- ny perspectives.

4. Evaluation and control of marketingstrategy

For marketing strategy to be successful, it mustbe refined and evaluated. Xassi (2001) notes that the most important marketing strategy evaluation issues are time segments of the market, competitors and marketing complex elements. In the author's point ofview, in terms of marketing strategy in respect to theapplication of market segments, particularly impor- tant is to consider who buy and who use our productsand it raises the following questions for assessment ofthe issues: why?, when?, where?, and how? Assessingmarketing strategy in respect of competitors, it is ap-propriate to answer the following questions:

What are the competitors?How many?

What is their power? What are the objectives?What are the prospects?

What are the relative market shares?

Xassi (2001) focuses on marketing strategyelements of the complex assessment area. In our opi-nion, for application of that strategy it is necessary to evaluate these marketing complex elements by apply- ing descriptive criteria: 1) the discounted value of pro-fits, 2) risk, 3) compliance with the overall marketingstrategy, 4) market reaction. These criteria enable thecompany to seek further information and let decide onthe strategic positions in the market occupancy. Men-tioned criteria for evaluation of influence encompass internal company factors: vision, values, competence, image resources, other products and risk propensity inherent in organizational culture, strengths and we- aknesses. Ramanauskienė (2008) points out the targetusers whom the marketing strategy is focused to, the importance of evaluation, by arguing that the organi-zation in order to successfully compete in the market,on higher-level of competition, must focus its activi- ties on customers by providing them with a much hig-her consumer value than provided by its competitors.First, the organization must understand the customer wants and needs. Good marketing requires a compre-hensive assessment of the target people. The authors consider it important to focus on market segments andcompetitive environment and strength of the compa- ny's marketing strategy. Ginevičius (2007) provides marketing assessment of the status of qualitative indi- cators that can be adapted and modification of marke- ting strategy of the company's assessment. The follo-wing indicators are identified:

1. Marketing (strategy) at the company.
2. Company management, departments, offices, etc.in respect of marketing department recommenda-tions on the marketing strategy.

Marketing department staff to be responsible for marketing strategy implementation and control,level of professionalism.

1. Marketing strategies in achieving the tasks of pre-cision.
2. Costs of marketing strategy, implementation, eva-luation and control.
3. Company's ability to assess the strategic marke-ting implications of the decisions.

We can classify the following key areas of mar-keting strategy and assessment criteria (see Table 4).

Table 4

Evaluation areas and criteria of marketing strategies

Evaluation area	**Evaluation criteria**
Evaluation of the effec-tiveness of basic marke-ting strategy	• Is the marketing strategy present and how to comply with its goals? • Marketing (strategy) at the company • Company management, departments, offices, etc. in respect of marketing departmentrecommendations on marketing strategy • Marketing department staff to be responsible for marketing strategy implementation andcontrol, level of professionalism • Marketing strategies in achieving the tasks of precision • Costs of marketing strategy, implementation, evaluation and control • Company's ability to assess the strategic marketing implications of the decisions
Orientation to the target market segment perfor-mance evaluation	• Who buys and who uses our products? • Who? When? Where? and How? • Target market segments' response

Orientation to evaluation of the effectiveness of competitors	• What are the competitors? • How many? • What is their power? • What are the objectives? • What are the prospects? • What are the relative market shares? • What are competitors' reactions?
Positioning strategy eva-luation	• Was the positioning made before the analyzed perspective and, in particular, the strategyof competitors? • Are strategic decisions not made before choosing a target market? • Does the strategy provide for positioning before decisions on specific elements of marke-ting complex are made? • What are competitors' reactions?
Marketing strategy of the marketing complex elements of the asses-sment	• Discounted profit • Risks • Compliance with the overall marketing strategy • Competitors' reactions

Conclusions

1. Marketing strategy is one of the functional stra- tegies of the company, which collectively make up an overall business strategy. Importance of marketing strategy in overall business strategy isvery high, because of control of key marketing relationships with companies outside of the sup- port functions – delivery of the goods to the mar-ket and sales. Management there is a high schooleducation and approaches to a strategy of diver- sity. Examination of the schools and theories of analysis helps to expand the overall strategy deve-lopment concept, a systematic approach is requi-red by the various law schools in the world. The strategy should be an integral part of the design, intuition, vision and learning, transformation pro-cesses, programs, environmental analysis, must meet interest of the leaders and the public.
2. In today's economy, marketing knowledge is re- quired at all levels of government business, re- gardless of whether the company is engaged in manufacturing, sales or provision of services.
3. Appropriate choice of marketing strategy and im-plementation of its measures are one of the key steps in company's achievement of its objecti- ves.
4. Organization of marketing strategy is influenced by all four marketing mix elements: product, pri-ce, distribution, promotion. The organization hasto constantly analyze its environment, evaluate the strategies employed by competitors and exa- mine marketing mix elements. One can develop amarketing strategy only knowing exactly what go-ods are wanted by people, what price they are wil-ling to pay him for the goods, what distribution channels are the most optimal, and what support measures can give the best results.
5. To meet the needs of consumers and companies to achieve the objectives, marketing program themain goal of which is to be concentrated not onlyon the marketing elements, but also on controls and risk management, is to be launched. It shouldbe noted that each of the mentioned items must have their own individual strategies that are suc- cessfully combined with each other and merged into a coherent strategy to ensure company's ob-jectives and competitive advantage.
6. In the literature, various classifications of marke-ting strategies can be found. Choice of type of marketing strategy may affect the evaluation pro-cess. The researchers classified marketing strate-gies into: 1) main marketing strategy, 2) general competitive advantage in the acquisition strategy
3) strategies to compete under certain market sha-re, 4) marketing strategy for its intended market,
5) positioning strategy; 6) strategy of the complexmarketing elements.

Different authors propose different marketing de-cision-making patterns to evolve different stagesof decision-making. However, the examples givenin summary may be more common larger strategicmarketing planning stages. They are: 1) formula- *įvadas,* 207–288. Vilnius: Technika.

1. *General Electric Organization* (1952). New York.

keting targets, 5) designing of marketing strategy,
6) monitoring and evaluation.

8. Without monitoring and evaluation of marketingstrategy, planning process is not complete: it doesnot assess the impact of marketing strategy on thebusiness and marketing results and relevance of marketing objectives, marketing strategy and theabsence of control, it would be difficult to deci- de on the follow-up marketing strategy, companyprospects.
9. The main aspects in assessment of marketing stra-tegy are: 1) evaluation of effectiveness of basic marketing strategy, 2) orientation to the target market segment effectiveness evaluation, 3) orien-tation to

evaluation of the effectiveness of compe-titors, 4) positioning strategy evaluation, 5) marke-ting strategy of the marketing complex elements of the assessment.
7.
10. Marketing strategy control may be of three types:
1) based on the control end of the process, 2) con- trol with emphasis on activities execution and adjustment; 3) under continuous planning (plans for adjustment) process, emphasis is placed on de-velopment of the situation-oriented planning andmanagement importance.

References

2. Anderson, Paul, F. (1982). Marketing, strategic plan- ning and the theory of the firm. *Journal of Marketing*,46 (Spring), 15–26.
3. Assael, H. (1995). *Consumer Behavior and MarketingAction*. South-Western College Publishing.
4. Baker, M. (2008). *The Strategic Marketing Plan Audit.*
Cambridge Strategy Publication Ltd.
5. Buttle, F. (1993). *Hotel and Food Service Marketing*. London: Cassell, Villiers House.
6. Dalrymple, D. J. (2004). *Sales Management*. Ameri- ca.
7. Doyle, P. (2000). Valuing marketing’s contribution. *Eu-ropean Management Journal*, 3 (18), 233–45.
8. Hambrick Donald, C., Fredrickson, J. W. (2001). Are you sure you have a strategy? *Academy of Manage-ment Executive*, 4 (15), 48–59.
9. Chlivickas, E. (2008). Marketingas plėtojant tarptau- tinį verslą. *Tarptautinis verslas. Tarptautinės vadybos*
10. 3) undertaking research perspectives, 4) firm mar- Kotler, Ph., Armstrong, G., Saunders, J., Wrong, V. (2003). *Rinkodaros principai*. Kaunas: Poligrafija ir in-formatika.
11. Palubinskas, G. T. (1997). *Strateginio planavimo pro-cesas.* Kaunas: Technologija.
12. Pranulis, V. et al. (1999). *Marketingas*. Vilnius: Eugri-mas.
13. Pranulis, V., Pajuodis, A., Urbonavičius, S., Virvi- laitė, R. (2008). *Marketingas*. Trečiasis pataisytas ir papildytas leidimas. Vilnius: Garnelis.
14. Rachman, D. J. (1988). *Marketing today*. Chicago: Dryden Press.
15. Ramanauskienė, J. (2008). *Marketingas: organizacijų marketingo strategijos ir modeliai*. Vadovėlis. Vilnius.
16. Virvilaitė, R. (2009). *Marketingo valdymas.* Kaunas: Technologija.
17. Žvirblis, A. (1992). *Marketingas: kursas menedžeriui*.Vilnius: Balticon.

***

13

MARKETING KNOWLEDGE AND STRATEGY FOR SMEs: CAN THEY LIVE WITHOUT IT?

Sanjib Pattnaik

ABSTRACT

The literature has for more than two decades warned of operational, organizational, dysfunctional, market and managerial barriers hindering the actioning of marketing activities and plans of small companies. Small firms typically possess certain characteristics, which serve to differentiate them from larger organisations. These characteristics include inherent weaknesses with respect to capitalisation and marketing awareness and practice. Many observed problems stemmed from businesses failing topractice marketing or produce marketing strategy and plans. High failure rates of small firms are largely attributed to weaknesses in financial management and marketing. Many classical management concepts are unsuitable for application in a small firm context, with research suggesting non-implementation of theoretically based marketing practice is the rule rather than the exception in the small firm. This paper reviews issues pertaining to marketing practice of strategy and planning in the small firm, acknowledges inherent weaknesses with regard to marketing in small firms, reviews marketing practice in the context of small firm characteristics, and considers the roles of owner/managers in improving small firm's marketing practice.

Key words: small companies, marketing activities, marketing plans, marketing practice.

Introduction

Today's marketplace is highly competitive with speed and change as general characteristics. Today's customers expect more features and new updates of existing products on a regular basis.Also, the rise of new technologies greatly affects the way of doing business and give rise to new market possibilities. Companies need to have the ability to constantly change and update the way theyoperate their business. This makes it crucial to be market driven when carrying out a product launch since market knowledge distinguishes the winners from the losers. A market driven approach is needed to gain the market knowledge required for getting the product to market. Market knowledge is extremely important, especially for micro and small enterprises as we see it, since this helps in identifying other actors already on the market that constitutes a threat for their existence. Market knowledge also helps the small enterprises to develop a competitive advantage through increased customer knowledge and demand, and thereby taking a strong position in the market. Research illustrates that SMEs in pursuit of organisational goals do not adopt the marketing concept to the sameextent as larger firms, and that marketing practice in SMEs is situation specific, and variable, regarding the levels of sophistication and effectiveness. SME Marketing is based on inherent SME characteristics, such as, size, resource constraints, muted influence of the founding entrepreneur, strong sales focus, strong awareness of some aspects of formal marketing, and personal contact networks.

SMEs challenges: High importance; High failure rates

Since the 1960s to date, small and medium-sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries. Definitions and classifications of SMEs can variate depending on the level of development of an economy. For example, the differences can be observed through a comparison in the definitions of SMEs in Macedonia and EU. Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laiddown in the Recommendation which are summarized in the table below (table 1 and 2). In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.

Dr. Sanjib Pattnaik is Associate Professor, Global Institue of Management, Bhubaneswar

Table 1. Terms of company's classification in Macedonia

Classification of the trader/ company	Headcount	Turnover (in MKD equivalence)	Balance sheet total	Other criteria
Micro	< 10	< € 50.000	-	- At most 80% of the gross income is derived from a customer by a person associated with this customer. - All rights of participation are owned by at most two individuals.
Small	< 50	< €2,000,000	< € 2,000,000	-
Medium-sized	< 250	< € 10,000,000	< € 11,000,000	-

Source: Company Act, Article 470, Macedonia Table 2. Terms of company's classification in EU

Enterprise category	Headcount	Turnover or	Balance sheet total
medium-sized	< 250	≤ € 50 million	≤ € 43 million
small	< 50	≤ € 10 million	≤ € 10 million
micro	< 10	≤ € 2 million	≤ € 2 million

Source: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm (24.06.2011)

SMEs roughly accounts for 99 per cent of all firms in Europe and approximately 50% of localand national GDP, 30 % of export and 10 % of foreign direct investment (FDI) worldwide. Some of the main findings about SMEs role in the national economy in the EU are the following (DG for Enterprise and Industry, 2009, p.7):

- Between 2002 and 2008, SMEs in the EU-27 grew stronglyand turned out to be the job enginefor much of the European Economy. The number of SMEs increased by 2.4 million (or 13 %),where as the number of large enterprise increased by only 2 000 (or 5 %);
- Between 2002 and 2008, the number of jobs in SMEs increased by 1.9 % annually, while the number of jobs in large enterprises increased by only 0.8 % annually. In absolute numbers,9.4 million jobs were created in the SME-sector between 2002 and 2008;
- There are areas where SMEs out perform LSEs: the propensity to invest which is– for the EU non-financial business economy as a whole – highest for micro firms. For micro enterprises, gross investment in tangible goods amounts to 24 % of value added, compared to 19 % for all firms. While for a large part, this is due to particular service industries (real estate, leasing, etc), the fact remains that the propensity to invest in micro enterprises overall is still higher than could be expected on the basis of their profitability underlining their importance for the EU-economy;
- Over the long run, underlying structural determinants of the earlier growth trend in the number of enterprises in the EU, including the Internet revolution, the growth of the services sector and institutional developments favouring self-employment, are, expected to remain relevant in the coming years. When economic growth seriously picks up again, the number of SMEs is expected to resume its upward development.

Despite the fact that SMEs are the most important factor for growth and sustainability of an economy, and bearing in mind that countries world – wide create a number of policy measures to assure the success of SMEs, the failure rate of SMEs is still extremely high. Research shows 50% of enterprises do not survive the first five years of their life, and the yearly average death rate of companies in the EU-25 is 7% (European Commission, 2007, p.3). Economic literature see business closure as an element compatible with economic development in a global economy, something also recognised in the Charter for small enterprises. A recent OECD study shows that survival rates of companies over a four-year period appear to be even lower in the US than in continental European countries, illustrating that the death of companies can be compatible with economic dynamism. There is reason to believe that increasing global competition is forcing entrepreneurs to react more rapidly and more flexibly, even by closing their business and opening another one. The data confirm a high correlation between entry and exit rates in both the EU and the US, suggesting a continuous process of creative destruction by which low productivity firms exit the market and are replaced by new ones. Overall, among the most important problems of SMEs include the following: taxes and contributions (29%), weak sales (18%) interest rates (18%), regulations (9%), skilled personnel (9%), competition with large businesses (9%), inflation (7%) and others (10%) (Aldag & Stearns, 1987, p.803). According to Abdelsamad & Kindling (1978, p.24): "In a market economy system failures can not be avoided entirely, but the rate of failure can be reduced if some of the causes of failure are recognized and preventive action is taken." A similar reasoning give Larson & Clute (1979, p.36): "Realistic approach would be to identify the symptoms of failure. In fact, if the causes are diagnosed in time, a managerial assistance can be introduced the way of failure can be changed." Some of the main factors of failure of SMEs are shown in Table 3.

Table.3 Factors of failure for SMEs

Types of problems	**%**
Failure to comply	0,8
Scams	0,5
Inexperience, incompetence	92,1
- Inadequate sales	49,9
- High costs of operation	13,0
- Difficulties in collection of payment	8,3
- Difficulties with inventory	7,7
- Excess of fixed assets	3,2
- Poor location	2,7
- Competitive weaknesses	25,3
- Other	1,1
Disasters	0,8
Unknown causes	5,8

Source: Dun & Bradstreet, Inc., (1977), pp.12-13

From the above, it may be noted that in most cases, inexperience, incompetence leading to inadequate planning, sales and competitive weakness are identified as the most important factors for failure of SMEs. This leads to thinking that small companies in general face a shortage of managerial and marketing knowledge and skills. Such findings are also registered with research in two diametrically opposed economies such as Great Britain and Nigeria (Ugwushi, 2009, p.204). Namely, between ten factors of influence (disasters and accidents, competition, inadequate infrastructure and lack of social support, high taxes, lack of accounting knowledge, managerial incompetence, poor marketing and sales efforts, poor economic conditions, inadequate planning of operations, financial problems) in the UK as the biggest impact factors are cited managerial incompetence (77%), poor marketing efforts (69%) and inadequate planning (88%) and in Nigeria these factors were also selected as highly important for the success/failure in business - managerial incompetence (44%), poor marketing efforts (70%) and inadequate planning (50%). Small business success is dependent not only on the presence of products and markets, but also on the efficacious marketing of those products within those markets (Smith, D., 1990, pp.37–60). Small and Mediumsized Enterprises marketing simply means marketing strategies that benefit small businesses. In this time of global recession, small companies should be exceptionally proactive in keeping sales up. While the underlying principles of marketing are equally applicable to large and small firms alike, a lack of sophisticated marketing is perceived to be problematic for smaller firms (Cromie, S., 1991, p.3). The internet is currently considered to be one of the marketing tools that can be used to enable small firms to effectively compete with larger organisations “on the same ground”. It as a mechanism through which small firms within specific niche markets will be able to access the “critical mass of customers necessary for success”. The online marketing arena has experienced significant growth over the past few years, while traditional marketing has deteriorated mainly due to its higher costs. With this kindof marketing, entrepreneurs are able to control and discover key revenue streams and make the right decisions with advanced reporting technology. Given the constrained resources of the small firm, marketing tools suitable for utilisation by smaller firms must be welcomed if they can be effectively used to enhance marketing practice of these smaller organisations. Small firms typically have different requirements with respect to marketing, with their inherent characteristics impacting upon the willingness/ability of the owner/manager to use conventional and/or contemporary marketing tools. The problems of a definition of firms’ failure and consequential inaccuracy in determining failure rates persists, but there is no doubt that small firms are considerably more vulnerable than larger businesses, largely through undercapitalisation and inadequacies in marketing (Job, D. D.,1983, pp. 69–83). This paper suggests that improving marketing practice in the small firm can be achieved through education of small firm owner/managers, given their omnipresence within the organisation. Marketing education in particular for small firm owner/managers is inherently problematic. These problems should be acknowledged and addressed by marketing educators endeavouring to use marketing education as a means of improving small firm marketing practice.

Marketing characteristics of small firms

Today's marketplace is characterized by strong competition, speed and change. New technologies affect the way of doing business and rise new market possibilities. These factors force today's companies to quickly respond to new changes and demand situations within short product life cycles. Fast changing technology and new market situations have forced businesses to be more innovative and apply strategy of change with continuous innovations of their products. To be able to reach out with new products on the market successfully it is of great importance to have a product launch strategy and know the critical success factors of a product launch. An understanding of the critical success factors can work as a guideline for new product launches and how to manage them.For a small new venture to be viable, customers have to desire what it is being offered, in sufficient numbers, and prepared to pay an economical price. This is at the heart of the marketing concept. However, an entrepreneurial approach implies taking advantage of market opportunities in a dynamic, proactive way. Combining the AMA definition of marketing and the definitions of entrepreneurship,

S. Kraus et al (2009) propose a new definition of entrepreneurial marketing: "Entrepreneurial marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders, and that is characterized by innovativeness, risk-taking,proactiveness, and may be performed without resources currently controlled" (S. Kraus et al, 2009, p.9). Entrepreneurial marketing processes (EMP) by Miles and Darroch (2006, p.488) emphasize "opportunity creation and/or discovery, evaluation and exploitation". Some marketing characteristics of small firms include: the fact that small firms are faced with different market and competitive circumstances; are believed not to (in general) engage in marketing or innovative practices, although their organic organisational structure should facilitate innovation more readily than the more bureaucratic structure of many larger firms (Cannon, T., 1991); have inherent production and pricing flexibility, but generally lack strong brand names and market power; have less goal conflict, various sorts of flexibility, an imbalance between production and marketing, and are ineffectual in the use of marketing techniques (Brannen, W. H., 1983). Small firms typically are flexible and can respondmore quickly than large organisations to changing market requirements, this flexibility forming a vital competitive strength (Heathfield, P., 1997, pp.233–235). Additionally, small firms face marketing problems which are a function of the general characteristics of small firms including: a limited customer base; limited marketing activity, expertise and impact; an over dependence on the marketingability of the owner/manager; reactive rather than planned marketing, (with marketing plans only produced to secure loans); and difficulties in exploiting marketing opportunities. A further difficulty for the smaller firm is that fixed costs usually absorb a higher level of sales revenue, leavingproportionally less for marketing expenditures (Stokes, D., 1994). Evidence suggests that small firm owner/managers rarely rely on formal training to negate a deficiency in marketing expertise (Hankinson, A., 1991). Small firms typically spend modestly on marketing expenditures, and utilise few of the available marketing techniques (Stokes, D., 1995). Many owners/managers rely on previous experience and common sense (Figure 1). Data for the implementation of market research as a key part of the model of market orientation for SMEs in Macedonia show the following (Jovanov

M. T. & Conevska B., 2011, pp. 743-746): 27% of small enterprises in the RM do not carrie out market research before beginning the operation, 76% do not conduct market research during the operations, approximately 63% of them had knowledge of competitors, suppliers and distributors, while only 20% had knowledge of consumer needs. Most of them - 87% organized the research withintheir own organization, despite the fact of lack in qualified staff, and primarily use data from secondary sources - internet, publications, brochures etc. The main reasons for this unenviable situation are: lack of funds - 75%, lack of qualified staff - 75%, and distrust in the data obtained in the survey - 35%.

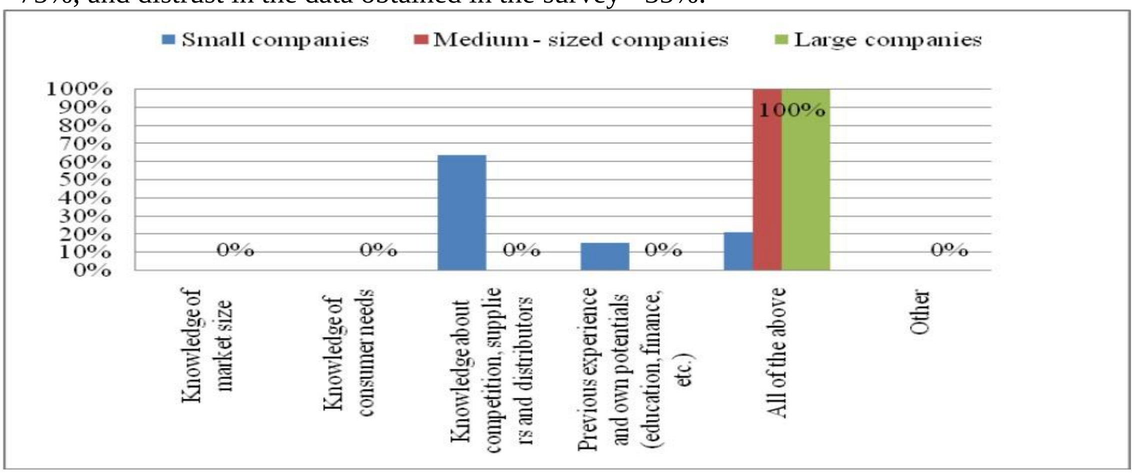


Figure 1 .Type of knowledge that owners/managers had before starting the businessSource: Jovanov M. T. & Conevska B., (2011), p. 746

Within the small firm, the boundary between marketing and selling becomes very blurred, as most small firms' marketing takes place during the selling process and for many small firm owner/managers the perception is that selling is marketing (Oakey, R., 1991, pp.343–356). Some marketing activities pose particular problems for the small firm. Research indicates that small firms find conducting market research and measuring promotion efficiency difficult, while in pricing, they solely rely on what are perceived to be industry norms for guidance, irrespective of their own firms' individual circumstances (Jovanov M. T., 2011). Small firms invest proportionately less on sales training than larger firms with exploratory research conducted by Shepherd and Ridnour (1996) indicating that the small firms studied invested approximately one third as much time in salesmanagement training as larger organisations. A major deficiency within small firms' marketing is the inability to forecast future demand for products, resulting in a passive and slow reaction to changes in the marketing environment (Jovanov M. T. & Conevska B., 2011, pp. 743-746). Ineffective or inadequate forecasting mitigates against effective marketing planning as forecasting is the basis of operative managerial planning. This, then, is the reality of small firm's marketing practice – informal, intuitive, and selling focused. Implementation of marketing principles is problematic with evidence of specific weakness with respect to pricing, planning, training and forecasting. Many authors such as Stokes (1994); Gilmore, Carson and Grant (2001) state that evidence of marketing practice, asprescribed in text books, is rarely found in the small firm. Owner/managers need are more ofgeneralists rather than specialists which means that: "Formal marketing may be interesting to the entrepreneur but it is unlikely to relate closely enough to his/her situation specific requirements or to solve company problems" (Carson, D., 1993, p.194). Marketing activity within the small firm is related to the owner/manager's attitude to, experience of, and expertise in marketing. The small firm owner/manager has little time to think strategically about the business (Brown, J., 1995), with resource constraints necessitating intuitive decision-making (Tibbits, G. E., 1981, pp. 173–188).Generally he/she does not believe that formal strategic planning will benefit his/her business (Orpen, C., 1994, 45–55), even though balance of the formal and informal planning often produces good results. Evidence suggests that many successful small businesses do not practice what is conventionally described as strategic management (Pleitner, H. J., 1989,70–75). Formal marketing plans are beneficial, thus they help to identify competitive advantages and secure resources, gain commitment through communication with participants, and set objectives and strategies. This claim is supported by empirical evidence that suggests that there is a relationship between formal strategic planning and small and new enterprise survival and success (Kraus, S. et al, 2008). Formal marketing planning is often rejected by SMEs due to a number of reasons. First, the top-level corporate goals (survival vs. growth) might impact the organizational function of marketing. This argument is supported by the fact that if small and new ventures plan, they tend to focus on financial planning rather than marketing planning, as liquidity constraints might put a firm out of business. For example, Kraus et al. (2008) discovered that less than one third of all Austrian start-ups performed formal marketing planning. Second, some criteria for marketing planning such as customer loyalty or return per customer are difficult to measure and need experienced marketers to perform planning, which may not be available in small firms. Entrepreneurs may tend to underestimate the importance of marketing and the term "marketing" is understood by SME owner-managers mostly in terms of "sales". This may, particularly in the case of younger small ventures, be the result of the general corporate goal of survival, as initial sales are needed to keep the company afloat. According to Gruber (2004), key challenges for marketing in new ventures result from the fact that these ventures and their products are unknown to their customers, which results in a lack of trust for these parties (Gruber, M., 2004, pp.164-199). A primary task for new ventures should be to build up trust and to win their first customers. Pertaining to the necessity to build up trust, a study by Witt & Rode (2005) on 311 new ventures from Germany shows the importance of a timely corporate brand-building process that includes the corporate culture, behaviour, design and communication, and is addressed not only to external, but also to internal stakeholders. When it comes to marketing behaviour, in the start-up stage, small business activity will focus mostly on the product and its customer acceptance (Jovanov M. T. & Conevska B., 2011, p.746). Marketing in SMEs seems to be more ad hoc like in the initial phases of enterprise existence. Whilst it is recognised that marketing is not an elixir to cure all business problems and that it has limitations, it has its part to play in assisting the large and growing number of small firms by reducing their vulnerability through increasing their marketing capability, and improving their practice of marketing (Brown, J., 1995). For example, a research among SMEs in Macedonia as a transition country shows that the SMEs in Macedonia don't have enough information about the market they compete on, don't take the needs and wants of customers seriously enough,they look upon marketing activities as a cost instead as an investment and rarely include them into the business plans. The owners of SMEs don't have enough knowledge about running a business, and do not understand the marketing process and its meaning for the success of a company in a market economy. All of these facts lead to losing the battle with competition from abroad because of the unclear or incorrectly defined business strategies.

What do small firm owners/managers need?

There are many examples showing why companies shouldn't reduce their marketing and advertising budget but most of these are centered around some of the biggest or evolving brands. Recent surveys show only 32.8% of SMEs spend on marketing, with the remaining focusing on building an over-sized sales force instead (Kinra M., 2011). So why do most SMEs not spend on marketing? Is it the quick results which sales provide that they prefer, or is the investment in marketing seen as not being able to generate quality campaigns with lower budget? Most SMEs go forsales over marketing as that provides them with immediate results and enables them to survive the next day. For most SMEs surviving the next day is the most important thing and therefor sales is an obvious. However, a huge percentage of SMEs also realise that once they reach a stage of growth or expansion it's not the sales but marketing which makes the difference. Only 7% of SMEs across the globe go ahead and employ marketing managers while the remaining percentage manages the teach themselves and only 16% form SME emplyees attend conferences, workshops and events (Kinra M., 2011). Employing resources and further investing in external events to participate is considered the biggest expense for most SMEs and one of the reasons why they refrain from marketing. Some of thecritical success factors for small firms are:

- Superior product differentiation (product advantage) (Cooper & Kleinschmidt, 1987; Cooper,1994; Hart & Tzokas, 2000; Rau, 2005)
- Strong market orientation with a high level of market knowledge (Cooper & Kleinschmidt,1987; Cooper, 1994; Gruenwald, 1997; Johne, 1999)
- Clear product definition and marketing objectives (Cooper & Kleinschmidt, 1986; Cooper,1994; Cooper, 2001)
- Synergy between technology, production and business proficiency (Cooper & Kleinschmidt,1987)
- Customer focused approach meeting customer needs and wants (Cooper, 1994; Hill et al.,2002; Soni & Cohen, 2004)
- Timing considerations such as seasonal variations (Gruenwald, 1997; Soni and Cohen, 2004).

Many circumstances mitigate against the application of these factors and the traditional educational techniques and methods for small business owner/manager marketing. Small business owner/managers do not manage their businesses adhering to accepted textbook management principles; have neither the time nor the inclination to contemplate complicated theories or processes (Hogarth-Scott S. et al, 1996, pp.6–18); are inable to reach a sufficiently systematic plateau documented (Brockhaus, R. H., 1983); are ofthen sceptical of the value of existing management training and development programmes. Additionally, owner/managers need to be generalists rather than specialists which means that – "Formal marketing may be interesting to the entrepreneur but it is unlikely to relate closely enough to his/her situation specific requirements or to solve company problems"(Carson, D., 1993, 194). In examining marketing education from the perspective of the small firm, a fundamental question must be what do these owner/managers need from marketing? Conservative and/or entrepreneurial marketing is possible for both small and large firms. Small firms with a conservative approach to marketing might advertise in a local newspaper with commonplace advertising, while a large firm that uses entrepreneurial marketing might launch a sophisticated viral advertising campaign. What small companies should learn is that there is an entrepreneurial approach to every element of the marketing mix (product, price, place, promotion). Within the area of the product a "conservative" approach to marketing might use a creation of basic, product that already exists on the market, but an entrepreneurial approach to marketing would offer new improved product or innovative use of the existing product. In the example of pricing, instead of the use of the method costs "plus" and cross margin, the price could be formulated according to the consumer value where customers decide how much to pay for the product (it is often used in restaurants) and contribution margin. Reagrding the place, entrepreneurial approach would offer a combination of few or new creative ways of distribution, instead of the existing ones. For example, such case was the introduction of the delivery service of restaurants, or on-line studying, couces ans seminars/webinars. In promotion, a "conservative" approach to marketing would be classical communication channels (print, TV, radio) with commonplace text and images in reaction to a competitor's campaign, with the own campaign being paid fully by the firm. An entrepreneurial approach to marketing would use innovative communication channels (e.g. Internet, mobile marketing or people – word of mouth, i.e. WOM) or use classical channels in an innovative way, with new content, and would be ahead of the competition in doing this. In addition, the communication strategy makes use of resources that are external to the firm, such as word-of-mouth from customers, bearing in mind that development of customer base is not less important. This approach can be more cost-efficient than classical advertising for small companies, hence they often aim at target groups that are often not accessible viaTV or print. The communication is distributed not solely by the company, but by the customers themselves, using their private or professional networks. The three best-known forms of entrepreneurial marketing, guerrilla marketing, buzz marketing, and viral marketing are shown in addition (see Table 4).

Table 4. Forms of Entrepreneurial Marketing

Form	Main characteristics	Source
Guerrilla Marketing	Bootstrapping, creative/leveraging use of available resources and a highly targeted mix of innovative and effective communication techniques, networking, using energy and imagination; low cost.	Levinson (1984)
Buzz Marketing	Customer-generated information distribution by verbal means, especially recommendations, through personal networks by creating excitement, infatuation and enthusiasm,often connected to events.	Rosenbloom (2000)
Viral Marketing	Self-replicating promotion spreading and multiplying like avirus over community webs. Similar to buzz marketing, butmore Internetoriented.	Jurvetson & Draper (1998); Godin &Gladwell (2001)

Source: Morris et al. (2002), p. 3, adapted.

These techniques stand for a variety of low-cost, high-impact marketing activities that allow small companies and/or individuals to act like big companies. It is about the attempt to achieve wide- ranging results with an untypically low utilization of resources by acting like a guerrilla. Guerrilla marketing is meant to be surprising, efficient, rebellious, infectious, and in the best case even spectacular, thereby bursting through conventional perceptions and leading to a “wow factor”. The aim is for the recipient to be riveted to the message, which will stimulate him/her to distribute it, further. An example is the “Go Heinrich Go!” campaign in Germany that was initiated by the sportinggoods producer Nike. The campaign sponsored the participation of the 80-year-old runner Heinrich at the famous Berlin marathon. The aged runner completed the 42 km run, which resulted in an enormous media echo for Heinrich and for Nike, and in a serious defeat of the Berlin marathon’s official main sponsor, ADIDAS, that on the other side has relied on the traditional sports sponsoring (Kraus S., et al, 2009, p.12). Buzz marketing is a new form of word-of-mouth communication which uses the recipient’s Internet, e-mail or cell phone networks to generate a buzz through event or an activity around a product or a brand, thereby leaving the actual advertising to the customers. Buzz is not only initiated by media campaigns; media coverage itself is a part of buzz. In the ideal case, a cleverly designed buzz marketing action is covered by the media and further distributed at no costs forthe marketer. Buzz marketing’s target persons are often opinion leaders with central hub positions in their social networks. In addition, buzz marketing is suited mostly for new products or services sinceit addresses the appeal of novelty the product has for the customer. Viral marketing describes a form of marketing that uses social networks (family, friends, neighbours, colleagues) to draw attention towards brands, products or campaigns by spreading messages. Viral marketers spread their campaignlike a virus, seemingly uncontrolled, mostly over the Internet. It is important for the client to have a personal benefit to forward the marketing message, or othervise it may not be succesfull.

Conclusion

The marketing function in SMEs is hindered by constraints such as poor cash flow, lack of marketing expertise, business size, tactical customerrelated problems, and strategic customer-related problems. Small business needs marketing in a format that is compatible with small firm characteristics and is acceptable to the small firm owner/manager. For most small firms, existing marketing theories offer little of practical use in day-to-day marketing activities. Many firms are unnecessarily vulnerable through inadequacies in their marketing practice. Educators and owner/managers view this situation from very different, and often incompatible perspectives. Educators need to establish what it is that small firm owner/managers need from marketing in general,and from marketing education in particular, and how this can best be delivered. Enterpreneurial marketing is innovative, risky, and proactive, focuses on opportunities and can be performed without resources currently controlled and it can be implemented irrespective of firm size, afther a standard set of measures is defined. These measures that would include best practices (bencmarking) as well as appropriate theory can be distributed to small companies’ managers/employees through cources, workshops (less time consuming) or managers can select these on their own, but with the risk of making a wrong choice and spend more time while doing it. Another way to practice small business marketing is through the use of SME marketing toolkit, which offers comprehensive yet easy-to-use guides to help SMEs develop implement and manage their marketing efforts: Market Assessment, Marketing Plan, Branding, Public Relations, Advertising, Marketing Collaterals, Digital Marketing, Promotions, Leads and Sales. Marketing is essential part of the existence phase of a firms' life cycle, which is especially important for small firms, thus they have a vast mortality rate which can be avoided merely with companies' growth and further development. It is acknowledged that SMEs (small to medium-sized enterprises) cannot do conventional marketing because of the limitations of resources which are inherent to all SMEs and also because SME owner/managers behave and think differently from conventional marketing decision-making practices in large companies. Good marketing supports sales and expansion, and contributes significantly to the growth of market share incompetitive markets. Knowledge of the customer and its behavior needs to be considered in relation with the product for determining the competitive advantage and what position to take in the market. Micro enterprises should focus on being close to the customer in every sense since this is where most of their strength and possibilities exists. An in-depth understanding of customer needs and wants, the nature of the market and the competitive environment are vital for success, still they are often missing (Cooper R.G.,1994, pp.60-76). A market driven approach is more important for micro enterprises thanfor larger companies since they are more dependent on the market situation due to often limitations in size and resources. A well-planned and well-implemented marketing strategy helps SMEs to present strong value propositions that build customer loyalty. Most SMEs understand the importance of marketing and how it can add more value, but some of the above issues have stopped SMEs looking into marketing over sales. The results of the study generate a general picture of a invidious position of the SMEs, especially in the area of insufficient information, poor marketing activities mostly consisting of sales, neglecting the other elements of the marketing mix. Many authors have asserted that a market - oriented approach to business will result in better corporate performance and many studies have found a positive association between market orientation and performance. The importance of market knowledge gathered through marketing activities camn be seen from the rising industry of market research, with exception in 2009 in line with expectations given the economic downturn (ESOMAR, 2010), especially in the manufacturing sector where the Fast Moving ConsumerGoods, pharmaceutical and health-care sectors account for the lion's share of sales in researchservices (ESOMAR, 2008). Consumer researches generated 83% of the research industry turnover (ESOMAR, 2008). Most dynamical markets which invest in market research (in billions) on a year basis are Europe ($13,299) and North America ($9,188), with rise in the Middle East and the Pacific ($0,442) (ESOMAR, 2010). It can be concluded that the owners of the businesses need to acquire more knowledge and skills about the business they are in and understand and accept the usefulness of the marketing activities (adapted for SMEs).

References

Abdelsamad, M. H. and A. T. Kindling (1978). "Why Small Businesses Fail," SAM Advanced Management Journal 43(2), p.24

Aldag J. Ramon, Stearns M. Thimothy, (1987), Management, South – Western Publishing Co.,Cincinnati, p.803

Brannen, W. H., 1983, 'Marketing for the Small and/or new Enterprise: Different?', in Gerald E. Hills, David J. Barnaby and Lee R. Duffus (eds.), Marketing and Small Business/Entrepreneurship, Chapter 1, Washington: International Council for Small Business, pp. 2–11.

Brockhaus, R. H., 1983, 'Research Opportunities in Entrepreneurship and Small Business From a Marketing Perspective', in Gerald E. Hills, David J. Barnaby and Lee R. Duffus (eds.), Marketing and Small Business/Entrepreneurship, Chapter 3, Washington: International Councilfor Small Business, pp. 15–23.

Brown, J., 1995, Business Growth Action Kit, London: Kogan Page.

Cannon, T., 1991: Enterprise: Creation, Butterworth Heinemann: Development and Growth.

Carson, D., 1993, 'A Philosophy for Marketing Education in Small Firms', Journal of Marketing Management **9**, 194.

Cooper, R.G. (1994). New Products: The Factors that Drive Success. International Marketing Review,Vol 11(1), 60-76

Cromie, S., 1991, 'The Problems Experienced by Young Firms', International Small Business Journal **9**(3).

Duffus B. and Duffus Lee R. (eds.), Marketing and Small Business/Entrepreneurship, Chapter 1, Washington: International Council for Small Business, pp. 2–11.

Dun & Bradstreet, Inc.,The Business Failure Record 1976, New York, 1977, pp.12-13

European Commission (2007), 'Overcoming the stigma of business failure – for a second chancepolicy,' COM (2007) 584 Final, p.3 http://eur- lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0584:FIN:en:PDF (24.06.2011)

European Commission Directorate – General, "European SMEs under pressure", 20

09, p.7. http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr_annual_report2010_100511.pdf (24.06.2011)
Gruber, M. (2004) 'Marketing in new ventures: Theory and empirical evidence', SchmalenbachBusiness Review, Vol. 56, No. 2, pp.164-199.
Hankinson, A., 1991, Small Business: Management and Performance, Aldershot: Avebury.
Heathfield, P., 1997, 'SME Business Leaders Need Powerful On-Board Computers', IndustrialManagement & Data Systems **97**(6), 233–235.
Hogarth-Scott, S., K. Watson and N. Wilson, 1996, 'Do Small Businesses Have to Practise Marketingto Survive and Grow?', Marketing Intelligence and Planning **14**(1), 6–18.
Job, D. D., 1983, 'Allocation of Marketing Resources in New High Technology Firms', in Gerald E.Hills, David J. Barnaby and Lee R. Duffus (eds.), Marketing and Small

Business/Entrepreneurship, Chapter 9, Washington: International Council for Small Business, pp. 69–83.
Jovanov Marjanova T. & Conevska B., 2011, Comparative Analysis of Factors From Marketing and Legal Perspective and Policies That Afect SMEs in Macedonia and EU, Conference Proceedings form the The First International Conference - Researching Economic Development And Enterpreneurship In Transitional Economies, Faculty of Economics, University of Banja Luka, Banja Luka, Bosnia and Herzegovina, October 27-29, 2011, p. 743
Jovanov Marjanova T., Doctoral Dissertation (working paper): Market Orientation, Marketing Strategy and Plan – Basic Business Steps for Successful Competitive Positioning of the SMEs on the Market – With a Special Focus on the Confectionary Industry and Market in Republic of Macedonia. Faculty of Economics, University "Sts. Cyril and Methodius" – Skopje, RM.
Kinra Manik, The importance of marketing for SMEs, November, 2011 http://www.smeweb.com/index.php?option=com_content&view=article&id=3147:importance-of-marketing&catid=67:features&Itemid=110 (visited at 09.11.2011)
Kraus, S., Schwarz, E.J. and Harms, R. (2008) 'Strategic business planning and success in smallfirms', International Journal of Entrepreneurship and Innovation Management, Vol. 8, No. 5
Kotler P. (1991).Marketing Management: Analysis, Planning Implementation, and Control.Prentice-Hall. Englewood Cliffs. Englewood Cliffs. New Jersey.
Larson, C. M. and R. C. Clute (1979). "The Failure Syndrome," American Journal of Small Business 4(2), p. 36
Morgan P. Miles, Jenny Darroch, (2006) "Large firms, entrepreneurial marketing processes, and thecycle of competitive advantage", European Journal of Marketing, Vol. 40 Iss: 5/6, pp.488
Oakey, R., 1991, 'Innovation and the Management of Marketing in High Technology Small Firms', Journal of Marketing Management **7**(4) (October), pp.343–356.
Orpen, C., 1994, 'Strategic Planning, Scanning Activities and the Financial Performance of SmallFirms', Journal of Strategic Change **3**(1) (Jan–Feb), 45–55.
Pleitner, H. J., 1989, 'Strategic Behaviour in Small and Medium-Sized Firms: PreliminaryConsiderations', Journal of Small Business Management **27**(4), 70–75.
S. Kraus, R. Harms and M. Fink, (2009) Entrepreneurial Marketing: Moving beyond Marketing inNew Ventures, Int. J. Entrepreneurship and Innovation Management , Special Issue, p.12
Smith, D., 1990, 'Small is Beautiful, but Difficult: Towards Cost-Effective Research for SmallBusiness', Journal of The Market Research Society **32**(1), 37–60.
Stokes, D., 1994, Discovering Marketing, London: D P Publications Ltd.

Stokes, D., 1995, Small Business Management, Second edition, London: D P Publications Ltd. Tibbits, G. E., 1981, 'Small Business Management: A Normative Approach', in Peter Gorb, Philip
Dowell and Peter Wilson (eds.), Small Business Perspectives, Chapter 5, Part 2, London:Armstrong Publishing, London Business School, pp. 173–188.
Ugwushi Bellema Ihua, SMEs Key Failure-Factors:A Comparison between the United Kingdom andNigeria, *Journal of Social Sciences*, Kamla-Raj 2009, 18(3): 204

***

14

Business Model Innovation : Past, Present,and the Future

Sasmita Nayak

Abstract

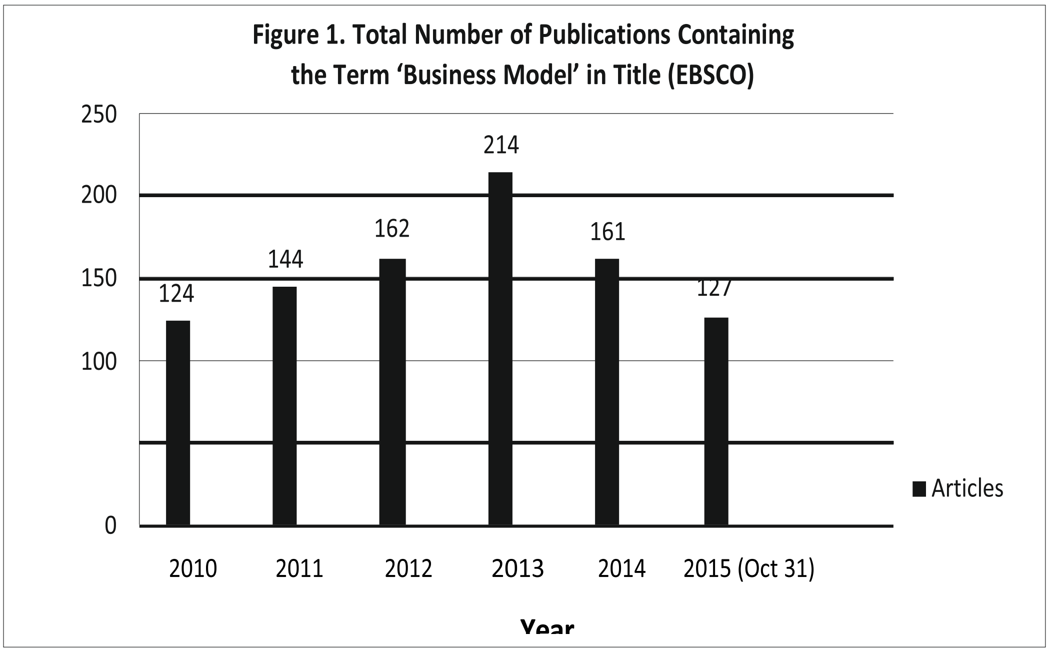
This article provided brief insights into the current literature on business models, its components, and the relationship with other subject matters. The review brings to light the fact that despite huge surge in academic literature on business models, the concept is still underdeveloped and at a budding stage. This review also pointed out the fact that scholars still don't have a common ground in explaining what a business model is and what are its components, but almost all scholars unanimously agreed to the fact that it is useful and practical in nature and worth of academic study. This review also highlighted that business model is altogether a different subject and is no way a sub component of strategy, innovation, or change management.

Keywords : business model, value creation, competitive advantage, strategy, business model components JEL Classification : M1, M10, M19

In this era of **cut** throat competition, companies often make substantial efforts to stand out from rivals, achieve higher sustainable growth, and improve profits. High performing companies even look beyond their boundaries with their network of suppliers, customers, and business partners in the quest for innovation (Misra & Parashar, 2008). Companies try to achieve this superiority by innovating their processesand products, but all of these efforts are costly, time-consuming, and require extensive investments upfront inresearch, new plants, and equipments. Despite all these efforts, the future returns on these investments arealways uncertain. Diffident to take these heavy risks, companies are turning towards business model innovation as an alternative to product or process innovation (Amit & Zott, 2012).

A published report from The Economist Intelligence Unit (2012) found that executives don't prefer new products and services as a source of future competitive advantage, but new business models. It is clear that companies know the perks of an innovative business model, and are thus giving it lots of importance. A similar study was conducted by IBM in which they took the responses of more than 750 corporate and public sector leaders throughout the world on the subject of innovation. One of the key findings from this study was that due to intensive global pressures, the focus of top executives on business model innovations has increased (IBM, 2006).

Business model innovation has been of great interest to academicians, managers, and entrepreneurs. The very first reason of such a high level interest is because it represents an often underutilized source of future value.



Dr. Sasmita Nayak is Asst. Prof. College of Engineering , Bhubaneswar

Second and one of the biggest reasons is that competitors find it almost impossible to imitate, for example, Delland Apple. The third reason is that it can be a possible source of sustainable competitive advantage (Amit & Zott, 2012).
The purpose of this paper is to provide comprehensive and up to date literature on the concept of business model innovation. The paper tries to bridge the wide gaps in literature on business model definitions, its components or elements, and its relationships with a firm's strategy. The paper starts with looking back over theemergence of the business model concept, and proceeds to analyze the varying opinion of scholars on the components of business models, their relationship with strategy and firm performance.

Emergence of the Business Model Concept
Ghaziani and Entresca (2005) conducted a search using the ABI/INFORM database and found 1,729 publications that included the term "business model". Among these, 166 were published during the period from1975-1994, and the remaining (1,563) were published during the period from1995-2000, signifying a high levelof increase. Zott, Amit, and Massa (2011) extended the same study using the EBSCO Host database to 2009.They found that until December 2009, the term business model was incorporated in 1,202 articles in academicjournals, while as from 1975 to December 2009, the term was mentioned in 8,062 documents. A similar kind oftrend was followed by the non-academic articles.
A similar attempt was made in this paper by using the EBSCO host database, and it was found that from January 2010 to October 2015, an altogether of 932 papers were published containing the term 'business model'in the title. The break up is as follows : 124 articles published in year 2010, 144 articles published in the year2011, 162 articles published in the year 2012, 214 articles published in the year 2013, 161 articles published inthe year 2014, and 127 articles published up to October 31st in the year 2015 had term the 'business model' in thetitle (Figure 1).
Many scholars argue that the development of the business model concept, and the wide use of the conceptmay well have been driven by the initiation of the Internet (Amit & Zott, 2001), rapid growth in emerging markets and interest in "bottom-of-the pyramid" issues (Prahald & Hart, 2002; Seelos & Mair, 2007; Thompson & Macmillan, 2010), and the expanding industries and organizations dependent on post-industrialtechnologies (Perkmann & Spicer, 2010).

Business Model Definitions
Although the research on business models saw a dramatic increase during the last decade, but still, academic literature is linked with the newness of this study. Paul Timmers, who was then working for the European Commission, was the first of the researchers to clearly define and characterize a business model. As per his study, a business model serves as the structural design for product, service, and information flows, including adescription of the various business actors and their roles and a description of the potential benefits for the various business actors and a description of the sources of revenues (Timmers, 1998). The study also added amarketing model, which was a combination of business model and marketing strategy in order to understand how a company realized its business mission. Furthermore, Weil and Vitale (2001) defined a business model asa description of the roles and relationships among a firm's consumers, allies and suppliers, and it identified themajor flows of product, information, and money, as well as the major benefits to participants.
Linder and Cantrell (2000) defined a business model as an organization's core logic for creating value. Theydifferentiated between three different types of models : the components of business models, real operating business models, and change models. On the other hand, Peterovic and Kittl (2001) perceived business modelsas the core logic of a business system for creating value. Gordijin and Akkermans (2000) mentioned that in research as well as in industry practice, often, business models were wrongly understood as business processmodels, and so, could be specified using UML activity diagrams or Petri nets. As per them, this is a misunderstanding, and a business model is not about processes, but about value exchanged between actors. Intheir opinion, the failure to make this separation lead to poor business decision-making and inadequate businessrequirements.
Some scholars recognized a business model as a description of a complex business that enables the study ofits structure, of the relationships among structural elements, and of how it will respond to the real world (Peterovic & Kittl, 2001). Some researchers rang a bell that a business model is always a simplification of thecomplex reality (Stahler, 2002). Magretta (2002) added that a business model is like a story that explains how anenterprise works. Moreover, like Stähler (2002), the researcher segregated the

concept of a business model from the concept of strategy. Magretta (2002) explained that business models describe, as a system, how thepieces of a business fit together, but as opposed to strategy, do not include performance and competition.

Tapscott and Lowi (2000) did not directly define business models, but they called them b-webs (business webs). A b-web is a business on the Internet and represents a distinct system of suppliers, distributors, commerce service providers, infrastructure providers, and customers who use the Internet for their primary business communication and transactions. Amit and Zott (2001) described a business model as an architectural configuration of the components of transactions designed to exploit business opportunities. Their frameworkdepicted the ways in which transactions are enabled by network of firms, suppliers, and customers.

At the same time, some authors included a financial element in their definitions of business models. Afuahand Tussi (2003) stated that each firm that exploited the Internet should have an Internet business model. As pertheir research, they understood it as a set of Internet and non-Internet related activities that allowed a firm to make money in a sustainable way. Hawkins (2001) described a business model as the commercial relationshipbetween a business enterprise and the products and /or services it provided in the market. The study explainedbusiness models as a way of structuring various costs and revenue streams such that it became viable, usually inthe sense of being able to sustain itself on the basis of income it generated. Rappa (2001) defined a business model as a method of doing business by which a company could sustain itself, that is, generate revenue.

A business model represents an important locus of innovation and a crucial source of value creation for the firm and its suppliers, partners, and customers (Amit & Zott, 2001). Based on the fact that transactions connectactivities, the authors further evolved this definition to conceptualize a firm's business model as a system of interdependent activities that transcend the focal firm and span its boundaries (Amit & Zott, 2010). On the other hand, Chresbrough and Rosenbloom (2002) described a business model as a framework that considered the technological characteristics and potentials as inputs and converted them through customers and markets intoeconomics outputs.

Osterwalder, Pigneur, and Tucci (2005) defined a business model as a conceptual tool that contained a set ofelements and their relationships, and allowed expression of a business logic of a specific firm. It is a descriptionof the value a company offers to one or several segments of customers and of the architecture of the firm and itsnetwork of creative partners. A wide range of researchers defined 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 (Shafer & Linder, 2005).

Westurlund (2008) defined business models as the means by which a company generates returns by specifying the associations with other actors as well as a firm's position in the value creating network. Weil and Vitale (2001) explained that business models represent the roles and relations among a firm's customers, allies,and suppliers, identifying the major flows of product, information, and money, and the major benefits for theactors.

A lot of other authors and researchers linked business models with strategy. A business model is a reflectionof a firm's realized strategy (Casadesus-Masanell & Ricart, 2010). Scholars contended that a business model can also be a source of competitive advantage that is distant from a firm's product market position (Christensen, 2001). Firms that addressed the same customers' needs and pursued similar products and market strategies cando so with very different business models; business model design and product market strategy are complements, not substitutes (Zott & Amit, 2008).

Though there are many different view points on the definition of a business model, Al-Debei, El-Haddadeh,and Avison (2008) listed three requirements for a business model definition:

(1) The definition should be comprehensive and general.

(2) It is not sufficient to define a business model only in terms of its components.

(3) The definition should synthesize the different points of views presented in earlier research.

Components of a Business Model

Most of the discussion related to a business model confine to its components or elements (in some papers, scholars have used this term). Scholars are of different opinions when defining the components of a businessmodel. One of the main components discussed by a majority of the scholars is the value network (Chesbrough &Rosenbloom, 2002; Dubosson-Torbay, Osterwalder, and Pignuer, 2002; Hamel 2000; Hedman & Kalling, 2003; Hoque, 2002 ; Kim & Mauborgne, 2000; Timmers, 1998; Van Der Vorst,

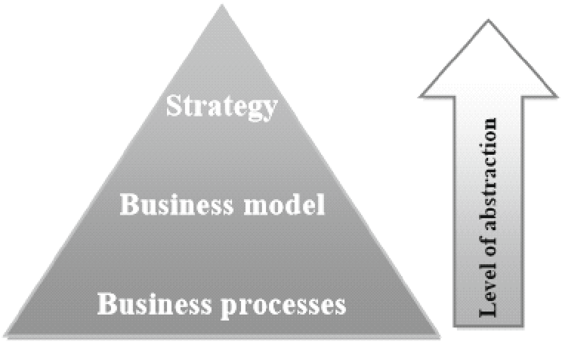
Dongen, Nouguier, & Hilhorst,2002). It includes suppliers, partners, and coalitions in the value network (Hamel, 2000).
One of the other most widely discussed elements or components in the business model is the value proposition. Researchers who have worked on business models stress out to the fact that it's a crucial element in any firm's business model (Chresbrough & Rosenbloom, 2002; Dubosson-Torbay, Osterwalder & Pignuer, 2002; Kim & Mauborgne, 2000; Magretta, 2002; Morris, Schindehutte, & Allen, 2005; Van Der Vorst et al., 2002). Value proposition is used to describe the bundle of benefits which a company offers and are of some value to a customer (Osterwalder & Pigneur, 2010). Some researchers focused on the value created to users bythe users based on technology (Chresbrough & Rosenbloom, 2002).
The next subsequent key component of a business model refers to a firm's assets and capabilities (Amit & Zott,2001; Dubosson-Torbay, Osterwalder, & Pignuer, 2002; Hamel, 2000; Hedmang & Kalling, 2003; Kim & Mauborgne, 2000; Morris et al., 2005). Assets and capabilities include people, technology/products, equipment, information, channels, partnership/alliances, and brands (Johnson, Christensen, & Kagermann, 2008). Some other researchers suggested that capabilities are the resources needed to develop and implement abusiness model (Morris, Schindehutte, Richardson, & Allen, 2006).
The other main component of a business model widely discussed by researchers includes revenue and pricingmodel or some researchers named it as economic logic or revenue logic (Chresbrough & Rosenbloom, 2002;Dubosson-Torbay et al., 2002; Hamel, 2000; Kim & Mauborgne, 2000; Timmers, 1998 ; Westerlund, 2008). Arevenue model is mainly apprehensive with the monetary features of providing services and products in the marketplace. It includes the procedures of payment used, what is being paid for, in what way revenue is spawned. It further embraces what birthplaces of revenue exist, pricing strategies, and pricing (Bouwman, Haaker, & De Vos, 2008).
There are many other components of a business model discussed by researchers in explaining business models. They include partnerships, key relationships, key activities, and customer relationships (Osterwalder& Pigneur, 2010). Some other elements like customer interface, fulfilment, and support (Hamel, 2000) and information flows (Amit & Zott, 2001) also found a mention. These wide variety of components, as discussedby scholars, further created a sense of confusion in understanding business models. One of the reasons responsible for this was that bulk of research on business models is conceptual and descriptive in nature ; so, itrepresents only the perspective of researchers (Morris et al., 2006).

Business Model Innovation

Business model innovation has received a huge attention since the mid-1990s due to the invention of the Internet. Some scholars focused on business model innovation as a medium for transformation and rebirth (Velu & Prakash, 2010; Velu & Stiles, 2013). Business models are critical for commercializing scientific innovations, creating strategic flexibility, reducing costs, and being able to transcend the constraints faced bydifferent societies such as affordability (Velu & Khanna, 2013). While doing so, business model innovationshave been shown to create superior competitive advantage for firms as they are less susceptible to imitation byother firms compared to product or process innovation (Amit & Zott, 2012).
Researchers are yet to come on some common terms while explaining business model innovation. The term'business model innovation,' just like the term 'business model,' is yet to achieve a common definition in academic literature. The term has been used by several authors in explaining how technology is commercialized (Chresbrough & Rosenbloom, 2002) and on the other hand, Christensen and Raynor (2003) highlighted the importance of business model innovation in order to maximize the reach of a novel technology.Research has shown that sometimes, a novel company can challenge the existing leader and threat their position by means of an innovative business model (Parekh, 2011). Research on business model innovation, beyond anydoubt, is young, having a surge on a daily basis, but at the same time, is characterized by obscurities (DaSilva &Trkman, 2014).
Researchers are of the unanimous opinion that business model innovation can occur even if only one of theelements in a business model is changed (Abdelkafi, Makhotin, & Posselt, 2013; Demil & Lecocq, 2010; Lindgardt, Reeves, Stalk, & Deimler, 2009). Scholars also agreed that business model innovation is altogether anew form of innovation, which is distinct from product or process innovation (Baden-Fuller & Mangematin 2013; Björkdahl & Holmén, 2013; Massa & Tucci, 2014). The perks associated with business model innovation, beyond any doubt, exceed than any other form of innovation (Lindgardt et al., 2009; Schallmo &Brecht, 2010; Snihur & Zott, 2013). So, business model innovation can be best

described as the process of

Figure 2. Business Logic Triangle



finding a novel way of doing business, which results in reconfiguring of value creation and value capturing mechanisms (Björkdahl & Holmén, 2013; Massa & Tucci, 2014).

Business Model and Strategy

The literature review indicates that scholars unanimously agree that business models might be a basis of competitive advantage that is distinctive from a firm's product market place (Amit & Zott, 2001; Shafer & Linder, 2005). Firms which attend to customer requirements and follow alike product market tactics can do sowith very dissimilar business models. Business model design and product market strategy are compliments, notalternatives (Christensen, 2001 ; Zott & Amit, 2008).

A wide variety of scholars agreed that there was a missing link between strategy and operations (Amit & Zott2001; Shafer & Linder, 2005). Therefore, they suggested that the business model concept may well be the intermediate medium between resource configuration and strategy regarding - especially - value creation (Makinen & Seppanen, 2007). So, this leads to the conclusion that business models are neither a strategy nor abusiness process, but something between them (Osterwalder & Pigneur, 2010). The Figure 2 depicts how a business model relates to strategy and business processes.

The literature review highlights that business models and strategies are not one and the same thing, rather,they are different with respect to one another. Nonetheless, strategy and business models have some commonissues, but strategy is seen as making choices that are related to future business and competitive positioning (Currie, 2004). Rather than just making preferences, business models reflect these preferences by facilitating,testing, and validating the cause and effect relationship that derive from strategic choices (Shafer & Linder, 2005). That is why some scholars defined a business model as the conceptual and architectural execution of abusiness strategy (Osterwalder & Pigneur, 2002).

Zott et al. (2011) emphasized that strategy focuses on rivalry, value arrest, and competitive advantage ; whereas, the business model concept is oriented to collaboration, partnership, and joint value creation. Teece(2010) argued that business models can create a competitive advantage, and they revealed the value capturingmechanism behind strategy. Furthermore, scholars agreed that business models are transparent and are easilyimitable by competitors. Therefore, a successful business model is inadequate in itself to ensure competitive advantage. Thus, business models need something to support their structure and some kind of isolation mechanism to hinder the copying (Teece, 2010).

Teece (2010) argued that those processes, systems, and assets behind a business model can prevent copying.

Therefore those processes, which constitute a business model, make the difference, not a business model itself. Secondly, a level of capacity limits replication possibilities. Furthermore, if competitors are uncertain about thedetails of a business model, it might gain competitive advantage Dell Computers's business model of direct selling was so powerful that it over performed its rivals for more than a decade. The model was very difficult forthe existing players to copy as it would upset their breathing delivery channels and make unfriendly the resellerson whom they relied. Fascinated by their own strategies, they were hopeless if they copied Dell and disaster-prone if they didn't (Magretts, 2002). So, it's clear that the most important element in creating competitive advantage around a business model is to innovate a value mechanism which is hard and difficult for the competitors to imitate.

Business Model Innovation and Technological Management

Business models and technological management have some common association. Business models have the capacity to create value, which is rooted in a new technology. Two corresponding facts seem to typify the research. The initial is that companies commercialize pioneering ideas and technologies through their businessmodels. The subsequent is that a business model symbolizes a novel subject matter of innovation, which harmonizes the conventional subjects of process, product, and organizational innovation, plus engages new- fangled forms of cooperation and partnership (Zott et al., 2011).

Chresbrough and Rosenbloom (2002), in their extensive case study of Xerox Corporation, demonstrated howthe company grew up in part by making use of a valuable business model to commercialize technology discarded by other foremost corporations. Their research, moreover, measured up to triumphant and failed technology spin-offs with analogous markets impending, and highlighted that in victorious ventures, the huntand learning for an effectual business model was appreciably superior than in field ventures. Technological innovations can prompt modifications in a company's working and commercial activities, and therefore, in thebusiness models (Calia, Guerrini, & Moura, 2007).

Technology has a great role to play in transition of business models, and that is the reason why researchers have, as of late, laid so much stress on technology and in fact, highlighted that technology is the major force which brings change in business models over time. Some researchers, on the other hand, have highlighted outthe significance of business models for all industries (Johnson & Suskewicz, 2009). Researchers further statedthat in huge infrastructural changes, the key is to budge the nucleus from developing individual technologies tocrafting entire novel systems.

So, as a whole, the research on business models and technology management has emphasized that technologyhas a foremost impact on the business models. At the same time, researchers have also highlighted that a meretechnological innovation cannot pledge firm success (Doganova & Eyquem-Renault, 2009). This is for the reason that technology has no intrinsic value (Chesbrough, 2007). Thus, technology has to be supported by anefficient and unique business model.

Business Models and Firm Performance

The likes of Dell, Amazon, and Apple have shown that business models can serve as competitive advantage andthus, can boost the financial performance of a company. Research scholars also agree that business models represent a possible resource of competitive advantage (Markides & Chritou, 2004). At the same time, originality offered by novel, effectual models can upshot in better value creation (Morris et al., 2005). Business executives and professionals, as of late, have realized that in order to stay ahead of the competition, product andprocess innovation is not enough. Thus, people from industry have rendered a listening ear and attention towards business model innovation (Massa & Tucci, 2014).

Afuah and Tucci (2001) explained a business model as the means by which a firm puts together and utilizes itsresources to present its customers superior value and to make money ; while Afuah (2004) introduced a strategicskeleton in which a business model was conceptualized by means of a set of components that keep up a correspondence to the determination of firm's prosperity.

Zott and Amit (2007) analyzed the business model design in entrepreneurial firms and analyzed its impact ontheir performance. As per this observation, the essence of the union among business model design along withfocal firm performance could be analyzed by gazing at two separate effects: the total value creation of businessmodel design and focal firm's ability to appropriate that value. As per this empirical work, business model is theautonomous variable and is tied to firm performance, moderated by the surroundings. The researchers in thisstudy recognized two design themes around which a business model could be arranged: efficiency and novelty. A wide majority of researchers introduced a business model as a variable moderating the outcome of topmanagement, team composition, and organizational performance (Patzelt, Knyphausen-Aufseb, & Nikol,2008). The study showed that founder-based, firm-specific knowledge of management group members couldhave an affirmative or a downbeat impact on firm performance, depending on the business model adopted. Onthe other hand, Zott and Amit (2008) admitted the likely contingent consequences of a business model inmediating between product market strategy and business performance.

A similar type of a study on business models and firm performance identified that business model innovation could bring success and innovation in enterprise models that centred on exterior collaboration, and partnerships were predominantly useful in older companies as compared to younger ones (Gisen, Berman, Bell, & Blitz, 2007). A worldwide survey by the consultants at IBM, wherein they interviewed 765 corporate and public- sector executives internationally, established that outperforming firms put twice as much stress on a businessmodel as done by underperformers (IBM, 2006).

Managerial Implications

The paper challenges the traditional perspective of competitive advantage by contradicting that managers should not look for new products and services as a source of competitive advantage, but rather, should focus onbusiness model innovation, which would serve as a source of sustainable competitive advantage because competitors would find it very tough to imitate. The study highlights that the perks of business model innovation are beyond calculation for organizations. It not only boosts the financial performance of a company,but also the strategic performance of a company. The study also clarifies that strategy and business model areseparate subjects and managers should not confuse them as the same thing. Lastly, the study points out that business model innovation does not only occur with the help of technology ; rather, it can occur without technology by simply changing or altering the value mechanism.

Conclusion

This study presents ample evidence that the concept of a business model is still young and is just making inroadsinto some of the leading academic journals. There is still lack of clarity on what a business model is and what areits various components. Scholars have no common ground in defining what a business model constitutes. Researchers have given contradicting definition plus a much wide variety of components in their papers and allthis have added more confusion on what a business model is actually and what are its components. Most researchers agree that the concept is novel, distinct, and worth of academic study and very much fits in the realbusiness world.

The second conclusion which this study draws is that this lack of clarity on the definition and components of business model is one of the main reason why bulk of studies are either conceptual, theoretical, or based on casestudies. This study points out to the fact that researchers don't have the necessary tools to measure business model innovation. This is the reason why there is a total dearth of empirical research based on this concept. DaSilva and Trkman (2014) came to the same conclusion like the present study, pointing to the dearth of empirical study on the concept as the main reason of contradiction among researchers. There are some very rare cases where an empirical study has been conducted. The only rare papers where an empirical research has beenconducted are the ones conducted by : Abd Aziz, Fitzsimmons, and Douglas (2008) ; Brettel, Strese, and Flatten(2012) ; Zott and Amit (2007) ; and Zott and Amit (2008).

Limitations of the Study and Scope for Further Research

One of the biggest limitations of this paper is that the bulk of the literature based on business models is theoretical, conceptual, and based on case studies. There is very little empirical support to back all the assumptions about a business model and its components. This raises questions on its usefulness and scope fortheory building. The other limitation is that much of literature on business models is contrary, and at times, itbecomes difficult to interpret it and therefore, make any meaningful interpretation. Lastly, all of the reviews arequite novel, dating back to a decade or so.

Several implications for future research flow from this study. First, scholars need to develop tools for measuring business model innovation. At present, one of the biggest reasons for the lack of empirical researchin this field is that there are no tools for measuring business model innovation. Second, scholars need to developtheoretical foundations of the concept of business model and shed some more light on what makes it distinct with respect to other concepts like value networks, value chains, and value creation. Third, an empirical studycan be conducted to establish the relationship between business model innovation and firm performance.

References

Abd Aziz S., Fitzsimmons J., Douglas, E. (2008). Clarifying the business model construct. Paper presented at the *5th AGSE International Entrepreneurship Research Exchange*, Melbourne, Australia, 5-8 February, 2008, pp. 795-813.

Abdelkafi, N., Makhotin, S., & Posselt, T. (2013). Business model innovations for electric mobility - What can be learned from existing business model patterns? *International Journal of Innovation Management, 17* (1), 1 - 41. DOI: 10.1142/S1363919613400033
Afuah, A. (2004). *Business models: A strategic management approach.* New York, NY : Irwin/McGraw-Hill. Afuah, A., & Tucci, C. L. (2001). *Internet business models and strategies: Text and cases.* New York, NY : McGraw-
Hill.
Afuah, A., & Tussi, C. (2003). *Business models and strategies.* Boston: McGraw Hill.
Al-Debei, M. M., El-Haddadeh, R., & Avison, D. (2008). Defining the business model in the new world of digitalbusiness (pp. 1-11). In *Proceedings of the 14th Americas Conference on Information Systems AMCIS'08*, Toronto, Canada, 14-17 August, 2008.
Amit, R., & Zott, C. (2001). Value creation in E-business. *Strategic Management Journal, 22* (6-7), 493-520. DOI:10.1002/smj.187
Amit, R., & Zott, C. (2010). *Business model innovation : Creating value in times of change.* IESE University of Narvana. Retrieved from http://www.iese.edu/research/pdfs/di-0870-e.pdf
Amit, R., & Zott, C. (2012). Creating value through business model innovation. *Sloan Management Review, 53* (3),41-49.
Baden-Fuller, C., & Mangematin, V. (2013). Business models: A challenging agenda. *Strategic Organization, 11* (4),418 - 427. doi: 10.1177/1476127013510112
Björkdahl, J., & Holmén, M. (2013). Editorial : Business model innovation – The challenges ahead. International
Journal of Product Development, 18 (3/4), 213 - 225.
Bouwman, H., Haaker, T., & De Vos, H. (2008). *Mobile service innovation and business models.* Berlin : Springer.
Brettel, M., Strese, S., & Flatten, T. C. (2012). Improving the performance of business models with relationship marketing efforts - An entrepreneurial perspective. *European Management Journal, 30* (2), 85-98. doi:10.1016/j.emj.2011.11.003
Calia, R., Guerrini, F., & Moura, G. (2007). Innovation networks: From technological business to business modelreconfiguration. *Technovation, 27*(8), 426-432.
Casadesus-Masanell, R., & Ricart, J. E. (2010). From strategy to business models and onto tactics. *Long Range Planning, 43*(2), 195-215.
Chesbrough, H. (2007). Business model innovation: It's not about technology anymore. *Strategy and Leadership, 35*(6), 12-17. DOI : http://dx.doi.org/10.1108/10878570710833714
Chresbrough, H., & Rosenbloom, R. S. (2002). The role of business model in capturing value from innovation: Evidence from Xerox Corporation's technology spin - off companies. *Industrial and Corporate Change, 11* (3), 529 - 555. doi: 10.1093/icc/11.3.529
Christensen, C. M. (2001). The past and future of competitive advantage. *MIT Sloan Management Review, 42* (2),105-109.
Christensen, C. M., & Raynor, M. E. (2003). *The innovator's solution : Creating and sustaining successful growth*.
Boston : Harvard Business School Press.
Currie, W. (2004). *Value creation from E-business models.* Great Britain: Elsevier Butterworth-Heinemann.
DaSilva, C. M., & Trkman, P. (2014). Business model : What it is and what it is not. *Long Range Planning, 47*(6), 379-389.
Demil, B., & Lecocq, X. (2010). Business model evolution : In search of dynamic consistency. *Long Range Planning,43* (2-3), 227 - 246.
Doganova, L., & Eyquem-Renault, M. (2009). What do business models do? Innovation devices in technological entrepreneurship. *Research Policy, 38* (10), 1559-1570.
Dubosson-Torbay, M., Osterwalder, A., & Pigneur, Y. (2002). E-business model design, classification, and measurements. *Thunderbird International Business Review, 44* (1), 5-23. DOI: 10.1002/tie.1036
Economist Intelligence Unit. (2012). *Agents of change : The future of technology disruption in b*
usiness.

Retrieved from http://www.economistinsights.com/sites/default/files/downloads/EIU_Agent%20of%20change_WEB_FINAL.pdf

Ghaziani, A., & Entresca, M. J. (2005). Keywords and cultural change : Frame analysis of business model public talk1975-2000. *Sociological Forum, 20* (4), 523-559. DOI : 10.1007/s11206-005-9057-0

Gisen, E., Berman, S. J., Bell, R., & Blitz, A. (2007). Three ways to successfully innovate your business model. *Strategy and Leadership, 35*(6), 27-33. DOI : http://dx.doi.org/10.1108/10878570710833732

Gordijin, J., & Akkermans, J. (2000). *Business modelling is not process modelling.* Salt Lake City: ECOMO. Conceptual Modeling for E-Business and the Web. Berlin/Heidelberg: Springer, 40-51.

Hamel, G. (2000). *Leading the revolution.* Boston: Harvard Business School Press.

Hawkins, R. (2001). *The "business model" as a research problem in electronic commerce.* Socioeconomic TrendsAssessment for the Digital Revolution (STAR), IST Project, Issue Report No. 4, SPRU - Science andTechnology Policy Research.

Hedman, J., & Kalling, T. (2003). The business model concept : Theoretical underpinnings and empiricalillustrations. *European Journal of Information Systems, 12* (1), 49-59. doi:10.1057/palgrave.ejis.3000446

Hoque, F. (2002). *The alignment effect : How to get real business value out of technology.* Upper Saddle River, NJ :Financial times/Prentice Hall.

IBM. (2006). *Expanding the innovation horizon : The Global CEO Survey 2006*. Retrieved from http://www- 935.ibm.com/services/us/gbs/bus/pdf/ceostudy.pdf

Johnson, M. W., Christensen, C. M., & Kagermann, H. (2008). Reinventing your business model. *Harvard BusinessReview, 86* (12), 50-59.

Johnson, M., & Suskewicz, J. (2009). How to jump start the clean tech economy. *Harvard Business Review, 87* (11),52-60.

Kim, W.C., & Mauborgne, R. E. (2000). Knowing a winning business idea when you see one. *Harvard Business Review, 78* (5), 129 - 138.

Linder, J., & Cantrell, S. (2000). *Changing business models : Surveying the landscape.* Accenture Institute forStrategic Change. Retrieved from http://course.shufe.edu.cn/jpkc/zhanlue/upfiles/edit/201002/20100224120954.pdf

Lindgardt, Z., Reeves, M., Stalk, G., & Deimler, M. S. (2009). *Business model innovation: When the game gets tough,change the game.* Boston : Boston Consulting Group.

Magretta, J. (2002). Why business models matter. *Harvard Business Review, 80* (5), 86-92.

Makinen, S., & Seppanen, M. (2007). Assessing business model concepts with taxonomical research criteria : A preliminary study. *Management Research News, 30* (10), 735-748.

Markides, C., & Chritou, C. D. (2004). Competing with dual business models: A contingency approach. *Academy ofManagement Executive, 18* (3), 22-36. doi: 10.5465/AME.2004.14776164

Massa, L., & Tucci, C. L. (2014). Business model innovation. In, M. Dodgson, D. M. Gann, & N. Phillips (Eds.) *TheOxford handbook of innovation management* (pp. 420 - 441). Oxford, UK: Oxford University Press.

Misra, R., & Parashar, N. (2008). Innovation and innovative solutions through partnerships. *Prabandhan: Indian Journal of Management, 1* (1), 3-8. DOI: 10.17010/pijom/2008/v1i1/64650

Morris, M., Schindehutte, M., & Allen, J. (2005). The entrepreneur's business model : Towards a unified perspective. *Journal of Business Research, 58* (6), 15-21.

Morris, M., Schindehutte, M., Richardson, J., & Allen J. (2006). Is the business model a useful strategic concept? Conceptual, theoretical, and empirical insights. *Journal of Small Business Strategy, 17*(1), 27–50.

Osterwalder, A., & Pigneur, Y. (2002). An e-business model ontology for modeling e-business. *15th Bled ElectronicCommerce Conference,* Bled, Slovenia, 17-19 June, 2002, pp. 1-12.

Osterwalder, A., & Pigneur (2010). *Business model generation.* Hoboken, New Jersey : John Wiley & Sons Inc.

Osterwalder, A., Pigneur, Y., & Tucci, C. L. (2005). Clarifying business models: Origins, present and future of concept. *Communication of the Association for Information Systems, 16* (1), 1-25.

Parekh, M.A. (2011). GCMMF: Pre-empting competition with an innovative business model. *Indian Journal of Marketing, 41* (8), 24 - 27.
Patzelt, H., Knyphausen-Aufseb, D. Z., & Nikol, P. (2008). Top management teams, business models and performance of biotechnology ventures : An upper echelon perspective. *British Journal of Management, 19* (3), 205-221. DOI: 10.1111/j.1467-8551.2007.00552.x
Perkmann, M., & Spicer, A. (2010). What are business models? Developing a theory of performative representation.
Technology and Organization, 29 (1), 265-275.
Peterovic, O., & Kittl, C. (2001). Developing business models for e- businesses. *International Conference on Electronic Commerce.* Vienna, October 31-November 4, 2001, pp. 1-6.
Prahald, C., & Hart, S. L. (2002). The fortune at the bottom of the pyramid. *Strategy + Business.* Retrieved from http://www.strategy-business.com/article/11518?gko=9a4ba
Rappa, M. (2001). *Business models on the web: Managing the digital enterprise.* Retrieved from digitalenterprise.org/models/models.html
Schallmo, D., & Brecht, L. (2010). Business model innovation in business-to-business markets–procedure and examples. In, *Proceedings of the 3rd ISPIM Innovation Symposium*, Quebec City, Canada, 12-15 December, 2010, pp. 1-15.
Seelos, C., & Mair, J. (2007). Profitable business models and market creation in the context of deep poverty : As t rategy view. *Academy of Management Perspectives, 21* (4) , 49 - 63 . doi: 10.5465/AMP.2007.27895339
Shafer, S. M., & Linder, J. C. (2005). The power of business models. *Business Horizons, 48* (3), 199-207.
Snihur, Y., & Zott, C. (2013). Legitimacy without imitation: How to achieve robust business model innovation. In
35th DRUID Celebration Conference, Barcelona, Spain 17-19 June 2013, pp. 1-35.
Stähler, P. (2002). Business models as a unit of analysis for strategizing. In Proceedings of *1st International Workshop on Business Models*, Lausanne, Switzerland. Retrieved from http://www.business-model-innovation.com/english/definitions.html
Tapscott, D., & Lowi, A. (2000). *Digital capital : Harnessing the power of business webs.* Boston: Harvard BusinessSchool Press.
Teece, D. J. (2010). Business models, business strategy and innovation. *Long Range Planning, 43*(2), 172-194.
Thompson, J., & Macmillan, I. (2010). Business models : Creating new markets and societal value. *Long Range Planning, 43*(2), 291-307.
Timmers, P. (1998). Business models for electronic markets. *Electronic Markets, 8* (2), 3-8.
Van Der Vorst, J. G. A. J., Dongen, S. V., Nouguier, S., & Hilhorst, R. (2002). E-business initiatives in food supplychains: Definition and typology of electronic business models. *International Journal of Logistics: Research and Applications, 5* (2), 119-138. DOI:10.1080/13675560210148641
Velu, C., & Prakash, S. (2010). Reuters market light : Business model innovation for growth. *Effective Executive,13* (2), 78-83.
Velu, C., & Khanna, M. (2013). Business model innovation in India. *Journal of Indian Business Research, 5* (3), 156-170. DOI : http://dx.doi.org/10.1108/JIBR-08-2012-0068
Velu, C., & Stiles, P. (2013). Managing decision-making and cannibalization for parallel business model innovation.
Long Range Planning, 46 (6), 443-458.
Weil, P., & Vitale, M. (2001). *Place to place: Migrating to e-business models.* Boston : Harvard Business School Press.
Westurlund, M. (2008). *Managing networked business models: Essay in software industry* (Dissertation). HelsinkiSchool of Economics, Helsinki.
Zott, C., & Amit, R. (2007). Business model design and performance of entrepreneurial firms. *Organization Science,18* (2), 181-199. DOI : http://dx.doi.org/10.1287/orsc.1060.0232
Zott, C., & Amit, R. (2008). The fit between product market strategy and business model : Implications for firm performance. *Strategic Management Journal, 29* (1), 1-26. DOI: 10.1002/smj.642
Zott, C., Amit, R., & Massa, I. (2011). The business model : Recent developments and future research. *Journal ofManagement, 37* (4), 1019-1042.

***

15

Small and Medium Business Management-Financial Sources andDifficulties

Munmun Mohanty

ABSTRACT. SMEs has performed an unparalleled role in coming to the Nigeria economic growth and assist as a training ground for entrepreneurs and a provider of solutions to address the challenges of unemployment in all consuming labours and promoting marketing growth. An opportunity for the wholesome advancement of SMEs in Nigeria was in connection to the sea change and growth policy as a consequence of the rapid advancement of the global economic system. But with the world economic unification, SMEs business environment is facing tremendouschanges and more intense competition. Hence, the reason for this study is to confront the sources of SME firm financing, conceptualise its financial challenges and source causes with objectives to exploit the increase and advancement of SMEs prospectively.

Keywords: financing, SME, performance, Nigeria

1. INTRODUCTION

Small and medium enterprise sector growth performance is essential to the nation performance. The vast majority of businesses globally are SMEs and functions a tract for entrepreneurs and a source of resolution to cope with the unemployment issue in all consuming labours and promoting marketing growth. The importance of SMEs in the evolution of economic, reduction in poverty, increase in value added, innovation, job creation, and boost in social position and standard is globally proven and acknowledged in emerging as well as in developed economies [1]. Accordingly, SMEs have been recognised to have a prodigious capacity for tenable development [2]. The surfeit of the employee's manpower from the larger corporation had the capacity be restored back to the employment, mainly through the growth of SMEs. To maximise performance, firms rely upon a range of sources of finance [3]. Resources and strategic choices as internal factors, and carrying capacity of the environment or compete as external factors, affectsfirm performance. The resource-based view of the firm proposed that competitive advantage arises from the ownership and deployment of resources that are in some way superior to those of its competitors. Accessing financing has been accentuated as the foremost constraints poignant the performance and development of small business in Africa. According to Fadahunsi [4] due to a shortage of financing provision and entrepreneurial skills, there is a high mortality rate of SMEs in Africa.

Financing, according to Mukhtar [5] is a precondition to the performance of enterprises. Hence, far, Nigeria has a great number of SMEs, playing a substantial part of the economic system. There are many different ways firms financing their operations and growth. Their financing alternatives are determined by the predilections of each firms entrepreneurs and, more essential, by the options that are reachable to them. However, in achieving growth, they try to overcome various challenges. According to Beck and Demirguc-Kunt [6], SME firms' still experiences various difficulties boosting developmental growth, particularly in financing. This study essentially considers its financing difficulties from the area of financing provision sources, which is of outstanding import for the SMEs firm performance and improve Nigeria economy.

1. LITERATURE REVIEW

1.1 SME Definition

A critique of the literature on SMEs indicates that the definition of SMEs considerably differfrom nation to country count on elements such as the country's; number of employees, the value of fixed assets, production capability, basic characteristics of the inputs, applied technology, and the essential challenges experienced by SMEs [7, 8]. On this certitude, it is very arduous of comparing SMEs among different nations. From the angle of the employee size, as their distinctive criteria for defining SMEs, scholars and other concerned parties have used distinct touchstone to operationalisethe small business. SMEs in Nigeria is defined according to firm employment size and turnover base.

Dr. Mummun Mohanty is Professor Global Institute of Management, Bhubaneswar

2. SME FIRM AND SOURCES OF FINANCING

According to Shepherd [9], credit decides access to all or any of the resources that SMEs owners/manager rely upon. It is a supply of funds to SMEs that may be used in the production and sustaining a firm competitive advantage process [10]. The need for financing in SMEs might emerge from four causes. Firstly is the need for start –up capital to assist in the formation of a new venture. Adopted by the necessity to finance business expansion through the leverage of new buildings, plants or machinery, finance working capital and trade debtors. Capital likewise may be needed for carrying over the extant line of work as an expansion strategy. Moreover, is when a venture capital is required to finance innovation. This requirement might occur independently or to coincide with the above-mentioned occasion. This type of financing is called risk capital, bears a significant degree of risk attached; so, it usually takes a great reward. Finally, is to adapt theexisting financial structure of the business via changes in the remainder of equity to debt or the ratioof long to short-term debt. Capital is one among the means for enterprises to get financing provision. This paper categorise financing, according to its sources.

2.1 Internal and External Sources

Internal financing is classified as a means of enterprises used own fund together with plowbackand depreciation, that is an important aspect of the continuation and growth of the business venture. Predominantly, an important first choice to source capital is via internal financing. Previous researchers, scholars and practitioners, Gélinas [11]; Ojo [12]; Pretorius and Shaw [13] identified two underlying financing conception of SMEs, the internal and external financing. Business financing can come either from internal or external sources [3, 11, 13]. Yet, a lot profitable SMEs makes used of financial institutions, individual investors, venture capital, and crowdfunding as external sources of financing and then make out fewer successful firms. According to Fischer and Reuber [14] external resource providers are a central component for rapid development. Carpenter and Petersen [15] find that SMEs use a more internal sources of financing and this constrained theirperformance.

Steel, et al. [16] posits that informal finance as all financial transactions that take position outside the operational range of various country's banking and other financial laws that cover a good assortment of financial activities whose scope of operations could take issue from country to country. Access to financing is the major determinant of business start-up and performance of SMEs.

2.2 Formal Source of financing

Commercial banks, merchant banks, and development banks are the established sources and provider of formal funding for SMEs. This set as a financial organisation with the purpose of profit acquisition, run by the states or independent capitalist. In an attempt to get this core purpose of banks, a number of functions were performed. One of the actions is the upset of the adoption of deposit as a credit to entrepreneurs and businessmen for productive uses. The financial scheme in Nigeria is not in short supply of liquidity, but banks have been very loth to give loans to SMEs, which they see as a high risk sector. It is mentioned that the bank credit is important for the take- off and efficient operation of any commercial enterprise. Such an enterprise may be in any form or size. It is equally required to coordinate other factors of production besides the initial demand for capital for investment purposes. Bank credit influences SME firm performance positively which transmit to the tier of economic activity in the state. Likewise is capable of deciding what is to be produced, for whom and how to be produced and even at what price the good or services is failingto be available to consumers. For instance, a study found in Ghana and Kenya, banks curb themselves to overdrafts and to medium-term bank loans. Besides, both types of credits were not granted without collateral. Consequently, financing provision through banks is largely confined to medium and large firms with secure collateral [17]. Over the years, the ratios of commercial bank loans to SMEs total credit have continued to decline almost uncontrollably. Hence, the need for a financing option of SMEs in the country which is readily obtained in the non-financial institutions.

1.1 Informal sources of financing

Informal source of financing refers to the financial transactions that occur outside official financial institutions. These transactions are not regulated by governmental authorities. It is important to note that the definition of informal financial transactions has nothing to do withlegality issues. Unlike formal institutions, such transactions rarely use legal documentation or the legal system to enforce contracts. Steel et al. [16] attempts an all-embracing working definition of informal finance as '*all financial transactions that take place outside the functional scope of various countries banking and other financial regulations that include a wide range of financial activities whose scope of operations may differ from country to country'*. According to Pagura and Kirsten [18] informal financial transactions can be legal such as borrowing from family members or can be forbidden by the law such as moneylender activities as in many countries.

Informal credit sources are heterogeneous, such as loans from money lenders, traders, families and friends, so on, account for between one-third and three-quarters of total credit in Asia [19-21]. The informal financial institutions exhibit different characteristics. Some of their common characteristics can be summarised as: dependence mostly on relationships and social networks, different interest rates from formal interest rates, generally small and short-term loans, small or no collateral, no regulation, no registry, and no deposit insurance.

The promotion and development of informal financial institutions were to checkmate the inefficiencies that were observed in the formal financial institutions. Borrowers in informal financial markets are generally the agents who have difficulty accessing finance or excluded from formal financial services, mostly SMEs and poor households, informal businesses, or borrowers in those rural areas are located far from formal creditors, people who are not able to meet collateral requirements. In this sense, the existence of informal financial markets is attributed to creditrationing or in a broader sense to credit constraint phenomena.

Previous empirical studies show that, despite financial liberalisation efforts and regulations, informal credits still constitute a large proportion of credits, especially that are provided to SMEs. Tsai [22] indicated that there is still extensive of informal financial institutions in China and India inspite of authorities' heavy control and regulations. He further indicated that the meagre provision ofbank credit, limits in governmental capacity to enact its policies, the political and economic divisionof the local market, and the institutional failings of many microfinance programmes as the genes that contribute to the continuity of the informal financial sector. According to Ekpenyong and Nyong [23], there is a wide consensus in Nigeria that government policies are skewed in favour of the formal sector to the detriment of the informal sector. This asymmetry is to the good disadvantage of SMEs in Nigeria since they additionally dispose of the funds of the informal sector.Also, Steel, et al. [16] the liberalisation had little effect to undermine informal financial sector in Nigeria and other developing African countries.

1.2 Debt Financing

Debt financing can be obtained from two sources, formal and informal sources. Formal sources are usually viewed as institutional sources, whereas informal sources refer to family, friends, directors, trade credit, and so on. Debt financing occurs when investors provide capital in the shape of loans for the managers/owners of a company to use to run the line. The firm, in return, pay interest rate for the use of the credit of the capital borrowed from the investors. Smaller firms,which require external finance, prefer to use debt funding from lending institutions as provenance, especially banks, are the most popular source of debt finance [24, 25]. Information asymmetries and moral hazard have a pronounced impact on banks and other finance providers, particularly at the start-up level. This is because of the lack of collateral and market presence; characterise most high- tech start-ups. Bank wants the firm to have collateral, an asset that is utilised to guarantee the loan, but this requirement often is negotiable. If a firm is having difficulties meeting its obligations, it is normally more comfortable to negotiate new terms to bank financing than for issuing securities.This flexibility results from the ongoing relationship between the bank and the firm.

1.1 Equity Financing

Equity financing is one provenance of financing provision a firm may employ to finance its business operations [26]. Equity financing is received in return for a proportional portion of a firm's value. It's the net worth of a firm; the value of the assets less the value of the financial obligations. The value of the equity of a concern is whatever remains after the company fulfils all of the claims of its creditors (residual claim). Equity capital can be furnished by the proprietor or by the directors of the firm, known as internal equity. Internal equity can also be supplied via profits made and retained by the business. As a matter of choice, third parties equity can be supplied, external equity.

External equity is the means of raising capital through the sale of shares in a company. Equity financing essentially refers to the sale of an ownership interest to advance finances for business functions. Equity financing spans a broad range of activities in scale and scope, from a few finances raised by an entrepreneur from friends and family, to giant initial public offerings (IPOs) running toraise huge capital. While the condition is mostly associated with financings by public companies listed on the stock exchange, it includes financings by private companies likewise. Equity funding isapparent from debt funding that refers to the funds borrowed by a business.

The huge bulk of SMEs in developing countries see their financial need through owner-manager's personal savings [27]. Other works, nevertheless, testified that an internally generated profit has been the most often used sources of finance, especially for mature small firms [28-31]. Due to the high cost of obtaining external finance, it was found that the majority of small innovativefirms relies heavily on internal profits as the main source of investment capital; they were reluctant to rely on external funding because of risks associated with the onerous terms demanded by externallenders of money. Firm owners were generally not averse to external assistance per Se since, it was clearly a means of expanding their businesses at a faster rate. However, in practice it was generally believed, both in developed nation like Britain and the United States, that the burden of risk was heavily biased in favour of the firm owner, while returns to the lender, partly due to this unbalancedrisk, were excessive. Although the majority of small businesses relies primarily on personal savings for start-up, most of them still need access to external finance, either equity or debt so as sustaining or developing. As businesses expand and enlarge they considerably cut back their dependency on personal savings and diversify their sources of external finance [28].

1.2 Short-Term Financing

Short-term financing is determined as a loan or credit facility with a maturity of a year or less.It as well defined as a credit arrangement extended to a mortgage banker to finance an inventory of loans that are resold to investors. Because of the difficulty in raising adequate finance for expansion, Bates and Hally [32] revealed that small firms are often driven to access short-term and medium-term sources of financing at high costs in condition of overdraft, trade credit, credit cards, leases and bank loans. While small firms are found to be moving from depending on short-term towards long-term finance; they are still greatly relied upon short-term bank loans and overdrafts to finance their business activities and operation [24, 33].

A survey of debt pattern in developed countries as reported by OECD [34] scorecard indicator, found that small and entrepreneurial firms in the UK depend too greatly on overdrafts as a choice source of financing. Three-quarters of the debt of small British firms were either overdrafts or other sorts of short-term loans, and overdrafts alone accounted for 58 percent of total debt compared with 35 per cent in Italy and just 14 per cent in Germany. Dimson [35] in his research on the sources of finance required by the smaller companies pointed out that small firms have a significantly higher proportion of current assets within total assets compared to large firms. His observation showed thatsmall firms rely heavily on current liabilities, mainly trade credit. Trade credit was found to be the next major source of debt finance after overdrafts [24]. In defiance, business financing in Chile, France, Korea, Russia, Serbia, Slovenia and Switzerland has been advancing. While Turkey withina context of 2010-2011, due to the overall expansion of business lending at different rates, experienced continued growth in SME [34].

1.3 Long-Term Financing

Long-term financing is a form of financing that is provided for a period of more than a year [26]. It is a financial obligation lasting over one year. It would include any financing or leasing obligations that are due to come in a greater than a 12-month period. Long-term financing services are provided to those business entities that face a shortage of capital. Long-term financing is generally for assets and projects and short-term financing is typically for continuing operation. It is distinct from short-term finance that is generally accustomed to offer cash that has to be paid backin twelve months. Likewise, the length

of time may be shorter than twelve months. Long-term financing includes a 30-year mortgage or a 10-year treasury note, like when an organisation issues stock put up capital for a new investment. Equity is a one mean of long-term financing.
Broadbent and Cullen [36] observed that sources of long-term financing include shares, debentures, public deposits, and retained earnings, term loans from banks and loans from financial institutions. Shares are authorised to the general public. The shareholders are the business owners. These may be of two types Equity and Preference. Debentures are also issued to the general public. The holders of debentures are the creditors of the company. Public deposits come about since the general public also like to deposit their savings with a popular and well-established company which can pay interest periodically and pay back the deposit when due. Retained earnings since have arisen the company may not distribute its profits' whole among its shareholders. It may retain a part of the profits and utilise it as capital. Term loans from banks are a consequence of many industrial development banks, cooperative banks and commercial banks granting medium-term loans for a period of three to five years. Finally, loans from financial institutions result from the many specialised financial institutions established by the central and state Governments which give long- term loans at a reasonable rate of interest.

2. SME FINANCING SITUATION IN NIGERIA

Financing of SME's in Nigeria has been a prickly topic. Capital is essential to the success of a business enterprise as it forms the foundation of the business. Nwachukwu [37] submits that SMEs performance in Nigeria have not yielded the expected results and desired impact on the development growth and this may not be unconnected to the financing challenges. Claessens [38] affirms that one of the issues linked to accessing financing acknowledge to the questioning, whetherfinancial services are available and in what quantity. The phenomenon of SME financing difficulty exists in many countries in the world, even in the developed countries with the relatively sound financial system, but this phenomenon in Nigeria is particularly prominent.
The Table 1 below shows that SMEs in Nigeria, firms always relies on retained earnings. While according to Idowu [39] SMEs rely on overdraft to finance long- term investments, and these have to be fully collateralised. Ogbuabor, et al. [40] examined the historical trend in the development of SMEs in Nigeria and observed that various opportunities that can contribute to competitive advantages are now only reserved for Nigerian companies. The survey underscored the demand for access to funding for development of the capital base of SMEs, and indicated that the Act would offer a turning point in the recognition of all the policy trusts formulated for growing SMEs in Nigeria in the hereafter. Despite their performance dominant numbers and importance in jobcreation, SME has always faced difficulty in obtaining formal credit or equity from financial markets.
According to ECA [41] even access to this overdraft and short-term loans are extremely restricted. In the study carried out in Nigeria by the [42], roughly 70 per cent of respondentsutilising commercial banks overdraft facilities with lower interest rates were needed to pledge collateral in the cost of land (48 per cent), Building (31 per cent), fixed asset, such as machinery (35per cent) and other assets (8 per cent). It is to be taken down that table above does not include long-term financing. For long-term financing of an entrepreneur, supplier credit is not an option, so firmstend to rely on own funds over 90 per cent of the time.
Empirical studies such as Wiklund and Shepherd [43]; Zou and Chen [44] identify that SMEs need financial capital to obtain physical resources in order to take advantage of business opportunities. Sanusi [45] showed that SMEs accessibility to formal financing in Nigeria is very limited. To build and sustain an SME, the entrepreneur requires to accessing varying forms of resources, like human capital; physical capital; and financial capital, each playing same significant, but different purposes during the life cycle of a new SME [46].

Table 1: Sources of Financing: International Comparison

Percentage of short-term financingfrom :(%)	Nigeria 2008 %	Brazil 2003 %	China 2003 %	India 2005 %	Indonesia 2003 %	Kenya 2007 %	S. Africa 2003 %
Internal funds/ retained earnings	70	44	13	47	38	73	66

Borrowed from banks and other financial Institutions	1	30	27	32	16	7	17
Purchases on credit from suppliers and advances from customers	25	15	2	9	4	17	12
Borrowed from family, friends and other informal sources	4	5	8	9	20	3	1
Issued new equity/debt	-	4	12	2	2	-	1

Source: Isern, et al. [47].

In this regard, the findings showed that the SMEs sector in Nigeria is still weak, starved of funds (Chukwuemeka, 2006; Fadahunsi, 1997; Kadiri, 2012; Mahmoud, 2005; Sule, 1986) andits level of funding (LOF) is one of the lowest in the world (CBN, 2006; MAN, 2011). Some authors have studied SMEs difficulties in accessing finance (demand side characteristics) while others have presented the main issues in bank lending practices (supply side characteristics).Understanding why SMEs face a financing gap, commonly defined as the difference between the volume of funds at their disposal and the volume of funds they require, implies distinguishing the various limitations which describe both sides. The supply side impediment is noticeable when the terms and conditions are not suitable for SMEs; the apt sources of finance are not accessible. The demand side constraints exist if entrepreneurs do not make use of existing financing opportunities, because of a shortage of good projects, lack of financing literacy, lack of persuasive business plans or lack of collateral presentation [48].

3. SOURCES OF FINANCING CHALLENGES

The occurrence of SME financing snag is brought along for numerous reasons, for instance, corporate itself issues, banks points of restriction, and credit establishments. This work centres its financing sources specifically financing strategy to break down financing challenges of SME. Because of the Nigeria financial institutions' framework, to prepare for monetary hazards, commercial banks changed their lending improvement procedure to favour large businesses. These developments created SMEs found with a smaller size in number or organisation to experience issues in getting funding facilities. Furthermore, it's nevertheless a huge challenge for SME getting bank advances regarding bank credits structural, viability and maintainable quality. On the supply side collateral guarantee is the main standards for loan approval, additionally, bank credit keeps on inclines towards substantial venture or SME firm that run well, also, long-time credits are amazingly low. This lopsided structure has obstructed the maintainability of SMEs with most likely,subsequently; prompt inept loaning, paucity of credit overseeing and assessment of SMEs framework. Small and medium-sized credit establishments are not many, as far as the current state of affairs of financial establishments in relation to SMEs, and face numerous issues and challenges in its further advancement, hence are unable to content the SMEs. The weak credit financing and non-subjective or mortgage asset resources, considered by banks makes it more significantly challenging in raising financing provision. Likewise, the no third-party undertakings with ample credit rating assessment to provide guarantees, making it reliable for funds obtainable from banks. The distance between the entrepreneur and the bank also determines the transaction costs. Geographic proximity between a bank and borrower facilitate frequent face-to-face communication and, subsequently, increases a strong bank relationship. SMEs located in rural areas of Nigeria, lag behind their urban areas, due to the high risk associated SMEs, there is a persistent lack of bank loans for rural entrepreneurs. Hence, financing institutions still have incredible breaking points for SMEs in fund raising. To circumvent these problems, the missing middle brings innovation in financing provision sources for SMEs in terms of crowdsourcing for funds.

4. CONCLUSION

The important drive of sustained Nigeria's developing economy is SMEs. In financing sources, SMEs can adopt the various method. It is imperative for an SME firm to be innovative in choosing right and suitable financing sources to combat the organisational financial challenges. This work majorly analyses the financial innovation and the movements of fiscal challenges from its sources, determine that fewer bank loans issue, geographical issues, and that absence of uniformity in public funds has hampered the profitable funding of SMEs. Likewise, the study looked at various means of financing SMEs and observed that there is still low of external financing provision for an SME firm in Nigeria.
The survey proposed that one of the innovative ways for SME firms becoming increasingly significant and invaluable in advancing economic growth in Nigeria is to improve financing provision via refinement of the financing sources. Nevertheless, in that respect is the need for government to provide a conducive environment that will enhance different financing sources. This review is one of a few studies that approached this matter. This study will add to the existing literature in the academic field of entrepreneurial finance and at the same time offers a springboard that will provide an impulsion for empirical inquiry in this area. It will help the policy maker in making SMEs becoming increasingly significant and unique in advancing economic development inNigeria.

References

[1] A. A. Eniola and H. Entebang, "SME Firm Performance-Financial Innovation and Challenges," *Procedia - Social and Behavioral Sciences*, vol. 195, pp. 334-342, 7/3/ 2015.
[2] A. A. Eniola and H. Entebang, "SME firms performance in Nigeria: Competitive advantage and its impact," *International Journal of Research Studies in Management*, vol. 3, pp. 75-86,2014.
[3] A. Terungwa, "Risk Management and Insurance of Small and Medium Scale Enterprises (Smes) in Nigeria," *International Journal of Finance and Accounting*, vol. 1, pp. 8–17, 2012.
[4] O. Fadahunsi, "The Challenge of Promoting Entrepreneurship and Small Business: The Commonwealth Experience " in *Small and Medium Enterprises Development: Policies, Programmes and Prospects* O. Fadahunsi and T. Daodu, Eds., ed: West AfricanManagement Development Institutes Network (WAMDEVN) 1997, pp. 170 - 186.
[5] S. M. Mukhtar, "ICT-driven human and knowledge capital development: in search of a new economic development model and policy framework in the networked global economy," *J. for International Business and Entrepreneurship Development*, vol. 4, p. 74, 2009.
[6] T. Beck and A. Demirguc-Kunt, "Small and medium-size enterprises: Access to finance as a growth constraint," *Journal of Banking & Finance*, vol. 30, pp. 2931–2943, 2006.
[7] A. Enquobahrie, "Promoting Entrepreneurship and Small Business in Cameroon," ed, 1997.
[8] N. Harabi, "Determinants of Firm Growth: An Empirical Analysis from Morocco," ed,2005.
[9] W. G. Shepherd, *The economics of industrial organization*. Englewood Cliffs, NJ: Prentice- Hall, 1997.
[10] K. M. Eisenhardt and J. A. Martin, "Dynamic capabilities: what are they?," *StrategicManagement Journal*, vol. 21, pp. 1105-1121, 2000.
[11] J. Gélinas, *Freedom from debt: The reappropriation of development through financial self-reliance*. London; New York; New York: Zed Books Distributed in the USA by St. Martin's Press, 1998.
[12] A. T. Ojo, *Banking In Nigeria*, 1984.
[13] M. Pretorius and G. Shaw, "Business plans in bank decision-making when financing new ventures in South Africa," *South African Journal of Economic and Management Sciences = Suid-Afrikaanse Tydskrif vir Ekonomiese en Bestuurswetenskappe*, vol. 7, pp. p.221–241, 2004.
[14] E. Fischer and A. R. Reuber, "Support for Rapid-Growth Firms: A Comparison of the Viewsof Founders, Government Policymakers, and Private Sector Resource Providers," *Journal ofSmall Business Management*, vol. 41, pp. 346–365, 2003.
[15] R. E. Carpenter and B. C. Petersen, "Capital Market Imperfections, High-Tech Investment, and New Equity Financing," *The Economic Journal*, vol. 112, pp. F54–F72, 2002.
[16] W. F. Steel, E. Aryeetey, H. Hettige, and M. Nissanke, "Informal financial markets under

liberalization in four African countries," *World Development*, vol. 25, pp. 817–830, 1997.
[17] M. Fafchamps, T. Biggs, J. Conning, and P. Srivastava, "Title," unpublished|.
[18] M. Pagura and M. Kirsten, "Formal—informal financial linkages: lessons from developing countries," *Small Enterprise Development*, vol. 17, pp. 16–29, 2006.
[19] J. Weiss and H. Montgomery. (2004). *Great expectations: microfinance and povertyreduction in Asia and Latin America*.
[20] J. Conning and C. Udry, "Chapter 56 Rural Financial Markets in Developing Countries," in *Agricultural Development: Farmers, Farm Production and Farm Markets*. vol. 3, P. H. o. a. e. Evenson, Ed., ed: Elsevier, 2007, pp. 2857–2908.
[21] D. A. Germidis, D. Kessler, and R. Meghir, *Financial systems and development: What role for the formal and informal financial sectors?* Paris: Development Centre of the Organisation for Economic Co-operation and Development, 1991.
[22] K. S. Tsai, "Imperfect Substitutes: The Local Political Economy of Informal Finance and Microfinance in Rural China and India," *World Development*, vol. 32, pp. 1487–1507, 2004.
[23] D. B. Ekpenyong and M. O. Nyong, *Small and medium-scale enterprises in Nigeria: Their characteristics, problems, and sources of finance*. Nairobi: African Economic Research Consortium, 1992.
[24] K. Keasey and R. Watson, "The bank financing of small firms in UK: Issues and evidence," *Small Business Economics*, vol. 6, pp. 349–362, 1994.
[25] J. M. Samuels, F. M. Wilkes, and R. E. Brayshaw, *Management of company finance*, 6th eded. London: International Thomson Business Press, 1997.
[26] R. C. Higgins, *Analysis for financial management*, 10th ed ed. New York, NY: McGraw-Hill/Irwin, 2012.
[27] B. Levy, "Obstacles to Developing Indigenous Small and Medium Enterprises: AnEmpirical Assessment," *The World Bank Economic Review*, vol. 7, pp. 65–83, 1993.
[28] C. Mason and R. Wilson, "Conceptualizing financial literacy," *Business School Research Paper, 2000:7, Loughborough University*, 2000.
[29] J. Blake and P. A. Lawrence, *Small business breakthrough*. Oxford, UK; New York, NY, USA: B. Blackwell, 1985.
[30] E. B. Roberts, *Entrepreneurs in High Technology*: Oxford University Press, 1991.
[31] R. P. Oakey, *New technology-based firms in the new millenium: Vol. 7*, Online-Ausg ed. Bingley, U.K: Emerald, 2009.
[32] J. A. Bates and D. L. Hally, *The financing of small business*, 3rd ed ed. London: Sweet & Maxwell, 1982.
[33] J. Stanworth and C. Gray, *Bolton 20 years on: The small firm in the 1990s*. London: Chapman Publ, 1991.
[34] OECD, "Recent Trends in SME and Entrepreneurship Finance," 2013.
[35] E. Dimson, "Financing the smaller company," *Long Range Planning*, vol. 11, pp. 9–13, 1978.
[36] M. Broadbent and J. Cullen, *Managing financial resources*, 3rd ed ed. Oxford; Boston: Butterworth-Heinemann, 2003.
[37] Nwachukwu, "The Role of Entrepreneurship in Economic Development: The Nigerian Perspective," *European Journal of Business and Management*, vol. 4, 2012.
[38] S. Claessens, "Access to Financial Services: A Review of the Issues and Public Policy Objectives," *World Bank Research Observer*, vol. 21, pp. 207-240, 2006.
[39] F. C. Idowu, "Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria," in *Proceedings of the 7th International Conference on Innovation & Management*, 2010, pp.1864-1871.
[40] J. E. Ogbuabor, V. A. Malaolu, and T. I. Elias, "Small Scale Enterprises, Poverty Alleviation and Job Creation in Nigeria: Lessons from Burnt Bricklayers in Benue State," *Journal of Economics and Sustainable Development*, vol. 4, 2013.
[41] ECA. (2001, 20/12/2014). *Enhancing the competitiveness of small and medium enterprises in Africa: a strategic framework for institutional support*. Available: http://repository.uneca.org/handle/10855/3324

[42] USAID. (2005). *Micro, Small and Medium Enterprises Financial Services Demand Survey Nigeria[*

[43] J. Wiklund and D. Shepherd, "Entrepreneurial orientation and small business performance: a configurational approach," *Journal of Business Venturing*, vol. 20, pp. 71–91, 2005.

[44] H. Zou and X. Chen, "Resources, Capabilities and New Venture Growth Choice," 2008.

[45] J. O. Sanusi, "Overview of Government's Efforts in the development of SME's and the Emergence of Small and Medium Scale Industries Equity Investment Scheme (SMIEIS)," in *Paper presented at the National Summit on SMIEIS organized by the Banker's Committee and Lagos Chamber of Commerce and Industry (LCCI)*, Lagos, Nigeria, 2003.

[46] O. Fatoki, "The Financing Options for New Small and Medium Enterprises in South Africa," *Mediterranean Journal of Social Sciences*, 2014.

[47] J. Isern, A. Agbakoba, M. Flaming, J. Mantilla, G. Pellegrini, and M. Tarazi, "Access to Finance in Nigeria: Microfinance, Branchless Banking, and SME Finance," ed: CGPA/World bank, 2009.

[48] OECD, "small and medium sized enterprises in turkey issues and policies,"

***

NEW BUSINESS MODELS. RESEARCH RESULTS AND EXEMPLARY CASE STUDY 16

Nihar Ranjan Swain

A term 'business model' appeared in the scientific article in 1957 for the first time but a broader discussion about business models started in the last decade of the previous century. A parallel debate about the meaning of sustainability for the transformation processes in society and their economies has started since the beginning of nineties. At present, different ideas and concepts about new business models emerge from this debate and practices observed on a market. So far, this movement is young and therefore there are not many scientific studies on the subject. This paper contributes to this gap in knowledge. The aim of this paper is to present the results of own studies carried out in international cooperation. Qualitative research on new business models was conducted in 12 selected European countries (Austria, Belgium, Croatia, France, Germany, Ireland, Lithuania, The Netherlands, Poland, Portugal, Switzerland and Turkey). In Poland, a dozen companies was classified as developing new business models based on the criteria identified in the preliminary study done in the Netherlands. The concept of creating shared value and contributing to sustainable development are the central categories for the idea of new business models. The paper presents a description of the research and methodology as well as an exemplary case study with critics and conclusions.
Keywords: business model, sustainability, sustainable development, qualitative research, case study.

1. INTRODUCTION. BUSINESS MODELS

An exemplary dictionary definition of the word 'model' presents its meaning as: "a standard or example for imitation or comparison" and/or "a representation, generally in miniature, to show the construction or appearance of something"[2]. In other words this is something that can show, simulate or explain real things and/or processes in simplified way. It usually reduces the complexity of the real world to few variables only to better understand what is happening in reality[3].

Jabłoński, like many other authors, claims the term 'business model' first time appeared in the R.Bellman and C.Clark article from 1957[4]. After almost sixty years it is still difficult to recognize generally accepted definition of the term 'business model'[5].

When we use this term in the phrase 'business model' we usually understand that it reflects the DNA of particular company (or companies with the same repetitive characteristics). According to Osterwalder and Pigneur „Business model describes the rationale behind the way in which the organization creates value and ensures and gains profits from the generated value"[6]. The business model can be defined and described in advanced: before we start an economic activity (desired situation) or can be mapped from the existing business activity of particular company (in a situation when business was started more intuitively rather than with analytical effort before). There can be also differences between a planned shape of a business (model) and a real shape of company's activity (reality). In other words the 'real' model can differ from the planned one.

The business model can reflect the static description of business and/or its dynamics. In this first approach we can discuss for example the configuration of resources, sales, profits and capital[7]. There are different propositions for the elements that the business model should consist of: for example Johnson, Christensen and Kagermann presented only three part model with the following elements: customer value proposition, profit formula and key resources and processes[8]. Osterwalder and Pigneur's pattern for business model preparation even consists of nine elements: key partners, key activities, key resources, value proposition, relations with customers, channels, market segmentation, cost structure and revenue streams[9]. Morris, Schindehutte and Allen presented useful collection of different perspectives on business model components[10].

Elements of such or any similar structure can sometimes describe processes and this way can be perceived as bridge between static and dynamic approach. The dynamic approach can, for example, help us to describe the way the value creation evolves following the changes in customers' needs and preferences[11]. The cognitive value of business model is stressed in literature very often (business model can help to "understand how to earn money")[12] because a business model reflects the organisational core logic of the value creation and delivery processes[13]. The reader will find another example in

Osterwalder's work where a business model is described "as the translation of a company's strategy into a blueprint of the company's logic of earning money"[14].
Jonker stresses that "A business model gives insight into the value that an organisation or cooperation can offer to different parties"[15]. Network partners are therefore the key elements to draw our attention to the fact that organisations practically always work in a chain. "Collaborating on value creation is, by definition, a collective task of value chains and/or networks"[16]. This means that developing a business model is not just about organisation itself but about the entire value network.

2. NEW BUSINESS MODELS

The term 'new business model' used in this paper refers mainly to business models that contribute to sustainable development of the society. Sustainable development started its political carrier from the Brundtland report[17] and was acknowledge as appropriate leading concept to coordinate economies around the world thanks to the so-called Earth Summits organised by United Nation (first in 1992 in Rio de Janeiro). Current debate in this area suggests, as in ISO26000 guidelines[18] that all action undertaken under the social responsibility agenda somehow contribute to sustainability of the whole society. To make it happen the organization should organize its social responsibility management system according to suggestions included in this standard. The question is whether it is enough to say that this creates a new model of business or rather that it just adds new element to the traditional business model? Looking much broader one can argue that nowadays we perceived businesses as entities that, in order to survive, need to establish and realise a set of goals (economic, social and environmental) rather than only one type of goals (economic one) typical for the past understanding of the business organisation[19].
In this light every business (in fact: every organisation) stands on three legs: economic, social and environmental. But this picture should reflect also that these three dimensions of sustainability can have their micro and macro meaning. Every organisation should contribute to creating values for the whole society with the focus on particular stakeholders but at the same time should stand for its own sustainability. That makes the whole picture even more complicated[20].
Current concepts that contribute to a current debate about new business models include:
sustainability as a central category for operational activities and different new approaches to value creation process (*multiple values creation, shared value creation, collective value creation*)[21]. *Multiple, shared* and *collective value creation* are the three interlaced concepts and one can argue that they more acknowledge their creators rather than give quite different perspective of discussed issues. However the underlying logic behind these concepts differs even if they lead to the same or similar conclusions. *Multiple value creation* is based on a triple-bottom-line concept and interferes with sustainability claiming that the organisation creates more than one type of value: environmental, social and economic[22]. Creating *shared value* is based on a concept that initial creator of value is not the only one that benefits from this process of value creation[23]. On the other hand the concept of *collective value creation* emphasises the collaboration of different parties in value creation process. In this light "sustainability can be interpreted as a general (overarching) value, one in which these common values are embedded"[24].
The concept of sustainability offers a step towards the new paradigm of thinking about business models and the whole economy. There is a promise of something new behind terms that are repeated all around: green economy, blue economy, innovative value proposition, sharing economy, circular economy and more inclusive form of capitalism (just mentioning only those). Signs of these changes can be observed around and could be perceived as first steps in a transition to the new reality. Materials are closed in loops, garbage becomes a commodity and waste streams instead of being dumped generate profits. Social and/or ecological problems are addressed with the participation of business organizations. Many services, eg. health care or education, are carried out with the help of multilateral exchange/barter systems or platforms, or using alternative currencies. Better social capital reduces the need for other types of capital (eg. human and financial capitals). These are just examples of common actions and collective value creation, which can be found in reality. Examples of such innovative projects are becoming more numerous. However, these initiatives are still young and demanding research. We do not know their actual significance for the future of societies and their economic processes. Empirical research, however, can bring us to better understanding of their nature and the way they implement sustainability and achieve multiple value creation.

The research presented below intend to stimulate and contribute to the debate about new business models taking into account the European perspective and gain better initial understanding about their nature[25].

3. QUALITATIVE RESEARCH ON NEW BUSINESS MODELS

3.1. Description of research and methodology

A qualitative research project on new business models in Europe started in 2013 and was initiated in 2011 by Jan Jonker, professor of corporate sustainability at the Nijmegen School of Management (NSM), Radboud University Nijmegen (Holland). The main aim of the whole project was to explore emerging new business models to discover their nature, structures and processes, typical elements and practices.

The initial research in the Netherlands gave the insight in some basic patterns and characteristics of new business models (developed further below). The presented research intended to verify these outcomes and give the European dimension to the study that initially was limited only to one country. The research was based on conducting a series of interviews in each of the co-operating countries by scientists involved in the project. The partnership covered institutions from the following 12 countries: Austria, Belgium, Croatia, France, Germany, Ireland, Lithuania, The Netherlands, Poland, Portugal, Switzerland and Turkey[26]. Since 2013 results of the European research have been analysed and discussed during scientific conferences and seminars and are a subject of different – mainly country-based – papers.

The research is of a qualitative type and is based upon Grounded Theory. The semi- structured interviews were used to gather qualitative data. As Konecki noted qualitative approach and therefore qualitative methods seem "very well suited to the study of processes": "With qualitative methods […] you can capture causal and intervening conditions of specified process of change, for example, in organizations and direction of a development of the process"[27]. The choice of method was determined by the objective of the study. The aim was to understand the processes of creation and development of new business models. The case study was chosen as a method and actually research strategy. This admittedly limit the scope for generalization of results - which does not mean that it is impossible to relate them to the theory and formulate on that basis theoretical conclusions[28]. It is particularly suitable for the formulation of so-called middle-range theory because the main aim of the Grounded Theory is to generate or discover such a theory.

An analysis of qualitative data gathered in the research is based on coding used in Grounded Theory. Coding can help to structure and discover meanings behind the data (sentences and group of sentences expressed during semi-structured interviews and drawings of respondents' business models). Unfortunately international comparability is limited in this case.

The scenario of the interview consists of four elements: introduction, part 1 (nine open questions on characteristics of new business models together with respondent's drawing of his/her business model), part II (five open questions on results of the new business model together with the checklist of the seven characteristics of new business models) and the closing of the interview. The open questions asked among other issues about: the nature of a business model developed by an interviewee's organisations , what is new about it, where sustainability is positioned in the model and what are the drivers for developing the model. There were questions about categorisation of the model, its maturity, values generated and the role of collaboration[29].

3.2. Initial results

The initial research performed by Jonker identified seven characteristics of new business model presented below[30]. Then the final research covered the intensity with which these characteristics occur in respondents' models. The below checklist was used to obtain relevant findings and the respondents were asked to use seven point scale to indicate the strength of every characteristic:

1. The model works on shared value creation,
2. Cooperative collaboration is a central principle,
3. Money is not the only transaction medium,
4. The model is focused on fulfilling needs,
5. The model is based on access and use (not property),
6. The model is founded on a long-term commitment (trust),
7. The model allows alternative currencies.

During the initial research the following three main patterns of new business model were discovered[31]:

1. s*waping/sharing* (sharing social capital, time, ideas, equipment, property, data and transport,

knowledge and networks, organising collective financing or collective purchases),
2. *trading/exchanging* (transactions with alternative currencies or based on multilateral barter or even realising transactions without means of payment),
3. *creating* (of multiple values for many stakeholders).

There were also more categories mentioned by respondents in some cases such as “so- called ‘freemium’ models, collective purchase models, matching models, models based on copying nature (Biomimicry), circle and life cycle thinking, boosters, thinking in shifts, and collaborators”[32].

3.3. Final research

In March and April 2013 the potential respondents were identified on the basis of a snowball effect by asking entrepreneurs about other examples. The first interviews started in May 2013. Then the gathered data (texts of interviews and drawings) were processed. In Poland 12 interviews (out of larger amount of identified cases) were analysed but the whole international consortium managed to study together 231 cases from Europe. The Polish cases are presented in the table 1.

Table 1. Cases prepared in Poland

B2B	ISSA, Spóła Działa, Competita, Kreatywni, KŁOS
B2NGO, B2PublicAdm	Stowarzyszenie Obywatele Obywatelom/Kooperatywa, ISSA, KŁOS
B2C	ISSA, Slogan, Spóła Działa, Stowarzyszenie Obywatele Obywatelom/Kooperatywa, Notjustshop, Kreatywni, W te pędy, Gniazdko, Pracownia Panato, KŁOS
C2C	Kooperatywa spożywcza
C2B	Notjustshop

Source: own elaboration.

4. EXEMPLARY CASE STUDY: STOWARZYSZENIE OBYWATELE OBYWATELOM/KOOPERATYWA

The Vice-CEO of the Stowarzyszenie Obywatele Obywatelom association was the interviewee in this case. He was the CEO of Kooperatywa at the same time (Kooperatywa is a brand that belongs to the association). The interview was held on 02 June 2013 and all information below comes from the interview and were up-to-date in a moment of the interview.

Stowarzyszenie Obywatele Obywatelom (*Citizens for Citizens Association*) has three pillars of its activity:

1. typical charity activities of an association (social activism),
2. publishing of the magazine “Nowy obywatel”, and
3. economic activity (performed by Kooperatywa).

The associations in Poland can lead economic activity and can offer paid services for public benefit but 100% of the profit should be used for statutory aims of an organisation. The main income of the organisation comes from this second activity. The economic activity consists of: printing services, typesetting, graphic design, Internet (websites, electronic publications, etc.) and the main market are NGOs and public administration. Initially it was assumed that they would be doing mostly graphic design, but customers wanted otherwise. They currently work on the preparation of publications (provide support throughout the whole process of publishing). Economic activity of association can be only its additional type of activity (according to legal regulations). It means that economic activity is carried out in the scope and scale necessary to achieve the social goals of the organization.

In their business model, social and environmental issues are tightly integrated with each other - it's hard to separate them. This form of organization (three pillars) was a conscious choice - especially that the organization dedicates its activities to non- governmental organizations (this market is not appreciated by the traditional businesses eg. graphic studios).

Their business has social dimension and it also applies to their economic activity. Organization does not only serve products to its customers but also help them by learning/consulting (what is the added value). In addition, they are a social organization and some customers can work as volunteers in their association. They have a democratic management processes which means shared responsibility. All employees of the association are its members. The whole profit that is generated by economic activity is spent on the statutory purposes of the association (it assures the independence what is very important when one take into consideration that the magazine is about serious social and political issues). Three essential elements are: profit, democracy and market.

The way the organization is managed is also important. “We work on tasks and we have this way flexible working hours – it makes possible to adjust to the problems of workers (when due to personal reasons staff can do the job at a different time than expected)”[33].

Environmental dimensions of the business is to follow segregation of wastes in the office. They have introduced even waste segregation in the nearest neighbourhood – the segregation was not carried so far in the courtyard house. The office uses Fairtrade tea and coffee. They recommend customers treeless technologies and recycled paper, environment-friendly printing technologies, etc. But according to the respondent they specialize in social issues.

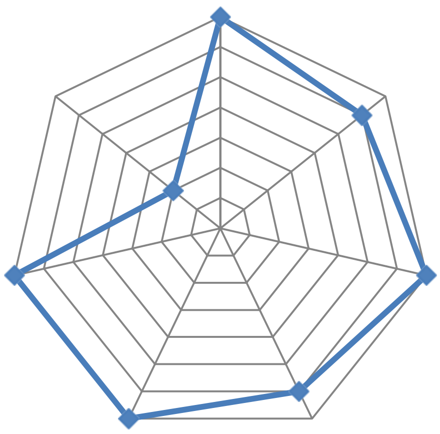
As mentioned before the association runs economic activity but the respondent prefers the term: ‘social enterprise’ rather than ‘firm’ or ‘company’. The strategic goal for the organization is to spread ideas. The type of their business model could be also called – using respondent’s words – social company or multisided platform[34] – it means the multi- level model (the same resources are engaged to produce different values for different groups).

This way the organization represents the *create* model which is in the eyes of respondent an equivalent of multisided platform – “we sell services and we use money that comes from selling to produce the ideological/social magazine which brings values for people who do not pay for it or bear only a low cost. The customers buy services from the organization (supporting it this way) to be sure that they will continue receiving the social/ideological values.”

"We treat money as a tool to alter/construct the world rather than treating the world as an opportunity to make money." The organization as a whole creates the following values: social justice, egalitarianism, democracy (all people are equal in the organization), responsibility, commitment, culture of sharing (even when they offer their services they add consulting/advice, they are committed to the open source movement, …), environmental issues (protection of the wildlife, supporting other organizations working for the protection of nature, ...).

The intensity of seven characteristics mentioned above are presented on the graph 1.

In this case only alternative currencies were not a part of described model.



Graph 1. The intensity of new business model characteristics - the case of *Stowarzyszenie Obywatele Obywatelom/Kooperatywa*.

Source: own elaboration. Legend of the scale: 1 = strongly not the case / 7 = strongly the case)

Comments to the terminology used by the respondent

While describing its organization the interlocutor surprisingly referred to the definition of a multisided platform presented in the work of Osterwalder and Pigneur. They wrote: "Some organizations serve two or even more separate segments of the market"[35]. "Multisided platforms link two separate but interrelated group of customers. […] Such platforms are of value for one group of customers only under the condition that it is possible to make contact with the second group" and creates "conditions for interaction of representatives of different groups" and are used to generate value building on economy of network eg. credit card holders and shops[36].

Though the respondent claimed that the organization works as an multisided platform („the same resources are used to create values to different groups of stakeholders") it seems that these groups of stakeholders are not linked by this platform and the organization does not build on the network effect (on the economy of network). These are rather separate markets though the respondent said that the readers of the magazine are at the same time the main customers and the sellers of the Kooperatywa's products and services. In the author opinion the business model of the organization is somewhere between simple diversification and multisided platform or even transgresses these models. Only a part of Kooperatywa's graphic services can serve as a linkage between readers of the magazine "Nowy obywatel" and those organisations that want to deliver the advertising content to the readers (but only in the case when Kooperatywa would be asked to prepare readers' adverts and their graphic designs). The success of this model does not seem to depend only on the linkage between those two groups even if this is perceived by the organization as the main idea behind this kind of activity – in other words one can imagine that both sides of this business (the magazine and Kooperatywa) are separate and successful businesses at the same time (what is difficult to imagine for example in case of multisided markets of credit cards platform). So it can be named multisided platform for their diversified activities rather than because of the multisided markets.

5. CONCLUSIONS

Nowadays we can observe a great movement inspired by the concept of sustainability. The public and individual sensitiveness leads, also in business activity, to new ideas and actions. New business models can be identified and described. Still we cannot say what is the importance of particular trends and phenomenons. Thanks to the presented research we can make an initial categorisation of new business models. These new categories (*sharing*, *exchanging* and *creating*) can be illustrated by numerous of cases around the globe. Still among the major outcomes and problems discovered during the research we can mention:

- difficulties with finding examples among mainstream companies (many of cases are of 'alternative' type: rebel youth, NGOs activists, …);
- there are many new social cooperatives and social enterprises – but the pattern is almost the same: economic activity is a mean to solve particular social problem (eg. to help disabled people on a labour market);
- relatively low amount of cases of C2B and C2C type identified and described at this stage.

There are also some critical conclusions related to methodology used. The tools were prepared in some points on a relatively high level of abstraction (eg. categories and characteristics derived from the initial research). That is why sometimes respondents have difficulties with terminology used in the research – many of them specially from social cooperatives are not highly educated persons in terms of economic and managerial education. Another critical remark is that at least in Polish case respondents when classifying the business model (seven characteristics) gave usually high marks: they assessed this way the possibility rather than current situation of their companies.

Most respondents declare their businesses follow the *create* model. The terms like community, collaboration, trust, connection and mutual were on the mouths of almost all interviewees and 'creation of value' always meant for them something more than just economic value. Ownership could be replaced by access to goods or services. Sometimes even traditional money are no longer necessary thanks to multilateral barter platforms/systems or alternative currencies. Sustainability is becoming a central element of these new business models. This is certainly the beginning of a transition to a new future and there is a strong necessity to research this area and learn more about current trends in new forms of business activities.

REFERENCES

[1] Bellman R., Clark C. 1957. *On the Construction of a Multi – Stage, Multi-Person Business Game*, „Operations Research" No. 4, pp.469 – 503.

[2] Betz F. 2002, *Strategic Business Models*, Ingineering Management Journal 2002, Vol. 14, No. 1, pp. 21 – 27.

[3] Bossidy L., Charan R. 2010. *Szósty zmysł w zarządzaniu firmą*, MT Biznes, Warszawa.

[4] Brundtland, G.H. (eds.). 1987. *Our Common Future.* Cambridge, UK: Oxford University Press.

[5] Dictonary.com, www.dictionary.com.

[6] Elkington, J. 1997. *Cannibals with Forks: The Triple Bottom Line of 21st Century Business.* Gabriola Island, CA: New Society Publishers.

[7] *Interview protocol international research project: New business models. A qualitative research project across Europe (2013).* Version: January 1st 2013.

[8] Interview with the Stowarzyszenie Obywatele Obywatelom/Kooperatywa representative, 2nd June 2013.

[9] *ISO 26000:2010 Guidance on social responsibility*, International Organization for Standardization.

[10] Jabłoński A. 2013. *Modele zrównoważonego biznesu*. Difin, Warszawa.

[11] Jonker J. 2012. *New Business Models. An exploratory study of changing transactions creating multiple value(s)*, Working Paper, Nijmegen School of Management, Radbound University Nijmegen, The Netherlands.

[12] Jonker J. (eds.). 2013. *Syllabus. New Business Models across Europe. A database with briefs of current cases*. Research Document. Nijmegen School of Management, Radboud University Nijmegen.

[13] Jonker J., Rudnicka A. and Reichel J.. 2011. *Nowe horyzonty. Przewodnik po społecznej odpowiedzialności i rozwoju zrównoważonym.* CSR Impact i ODE Źródła, Łódź.

[14] Johnson M.W., Christensen C.M. and Kagermann H. 2008. *Reinventing Your Business Model*, Harvard Business Review, December 2008.

[15] Konecki K. 2000. *Studia z metodologii badań jakościowych. Teoria ugruntowana*. PWN, Warszawa.

[16] Linder J. and Cantrell S. 2000. *Changing Business Models: Surveying the Landscape*, accenture Institute for Strategic Change.

[17] Morris L. 2003. *Business Model Warfare. The Strategy of Business Breakthroughs*, An InnovationLabs White Paper, University of Pensylvania, May 2003.

[18] Morris M., Schindehutte M. and Allen J. 2005. *The entrepreneur's business model: toward a unified perspective*, Journal of Business Research, vol. 58, no. 6, pp. 726-735, 2005, doi:10.1016/j.jbusres.2003.11.001.

[19] Novak A. 2014. *Business Model Literature Overview*, Financial Reporting 1, 2014, pp. 79-130.

[20] Osterwalder A. 2004. *The business model ontology. A proposition in a design science approach*, These /Ph.D. Dissertation/, Universite de Lausanne Ecole des Hautes Etudes Commerciales.

[21] Osterwalder A. and Pigneur Y. 2012. *Tworzenie modeli biznesowych. Podręcznik wizjonera*. Wydawnictwo Helion, One Press, Gliwice.

[22] Porter M.E. and Kramer M.R. 2011. *Creating Shared Value: How to Reinvent Capitalism and Unleash a Wave of Innovation and Growth*. Harvard Business Review, Jan-Feb, pp. 62-77.

[23] Schaltegger S., Hansen E.G. and Lüdeke-Freund F. 2016. *Business Models for Sustainability: Origins, Present Research, and Future Avenues*, Organization & Environment 2016, Vol. 29(1) 3–10, SAGE Publications, DOI: 10.1177/1086026615599806.

[24] Stähler P. 2002. *Business Models as an Unit of Analysis for Strategizing*. International Workshop on Business Models, Lausanne, Switzerland. https://pl.scribd.com/doc/34770740/Business-Models-as-a-unit-of-Analysis-for- Strategizing

***

17

Evolution of Business Models: Past and Present Trends

Rajaram Rout

ABSTRACT

The article deals with the formation and development of the concept of business models. Is discussed the formation of the definitions, history of the tools business modeling development. Directions of using business models based on the needs of management at different stages of development of the company are shown. The evolution of business models is revealed. The results of research, conducted by the authors, are directed to identifying new trends in creation the business models of modern Russian and foreign companies, is presented. The attempt to predict future trends in this direction is made.

Peer-review under responsibility of Faculty of Economic Sciences, "Lucian Blaga" University of Sibiu"

Keywords: Business model; modeling business; startups; modern trends in the development of business models.

1. Introduction

In modern conditions, when there are permanent appearance of new technologies, changing consumer preferences, the formation of new social trends, the main key factors of success in the competition becomes the correct definition of current business model for the company.
Successful innovative products are no longer a guarantee of success in the market. Integrated innovation that moves to the level of permanent monitoring of the adequacy of the business model changing circumstances and design of its improved version is a determining factor in the success of regional and international competition. This authors position is supported by the views of the other researchers, since according to PhD Strekalova "The fate of the company's business depends on the proper selection and implementation of business models" (Strekalova, 2009).

The history of the business modeling

Designing a business model as a tool for strategic and innovative management appeared relatively recently. The first steps in the direction of business modeling have been made in the 70 years of the twentieth. According to the needs of top-management large-scale projects methodology of structural analysis and design systems SADT had appeared (Structured Analysis and Design Technique). It was developed by the American Douglas Ross in 1973. One of the subsets of the SADT, methodology for functional simulation IDEF0, an extraordinarily wide application had obtained. (Integration Definition For Function Modeling). This direction has been developed on the basis of a separate direction programmotehniki CASE-technologies (Computer-Aided Software/System Engineering) in the 80 years. After that programs designed to address organizational issues management or business modeling, was detached into separate class, which in the western market was named «BMS» (Business Modeling Software). Among these software products possible to allocate Edrawsoft, AccuProcess Modeler,Gliffy, ConceptDraw и другие. BP Win is one of the most popular products among business modeling and simulation of business processes.

Mr. Rajaram Rout is Assistant Professor, Global Institute of Management, Bhubaneswar

In the 2000s, business modeling, supported by appropriate software, gradually has evolved to a separate management methodology - Business Engineering. The basic content of which is to analyze and improve the company's activities through the wide application of its business model, created using a process approach. At this stage, comes the understanding that business modeling is a tool that allows you to determine the correct direction of change, to form the concept of change and facilitate their implementation.

1.1. Concept of business model

Analysis of the literature shows that the authors often understand the business model in different ways, and their studies are carried out in several directions. Within the first direction researchers use a business model as an abstract concept to a very general way to describe a way to create, sale and delivery of value to customers (Chesbro, 2008; Markides, 2010; Ostervalder & Penye, 2013).
The second trend is characterized by the primarily emphasis on the concept of business (Slivotsky, 2006). This approach allows researchers to overcome the complexity of the object under study and reduce it to a level acceptable to the perception and understanding. All this helps to selection and study of the basic elements of the business model, as well as the relationships between them, which generally characterize the company's business. For example, in Kristensen (2009); A.Slivotsky (2006), along with the definitions of business model elements that must be present in it are specified. The quantity and composition of selectable items different authors vary and their number ranges from 4 to 9. In general, they may be presented as a list of basic elements of a business model.
The third line of research examines specific situations and analyzes the business models of real companies. The authors use a business model to describe and analyze business successful companies such as Xerox, Zipcar, Lego, Dell, Innosentive, Toyota, Wal-Mart and others. It should be noted that the descriptions of business models in the literature by various authors often differ in the terminology used in conceptualizing and how they formalize these business models real companies.
Analysis was performed based on the definitions of business models, presented in Table 1.

1.2. Using the business model

Business models have been widely used in the era of technological entrepreneurship and venture capital investment.
Since this tool provides the opportunity for a short period of time to compare several projects and startups.
Assessing the short and capacious view of the company as a business model, managers become widely use business modeling for strategic and operational management. This tool has become a tool for reflection and study business. At the moment, the business model is used in a broad range of tasks, among which are:

- Understanding of the business logic;
- The design of forms of adaptation to external changes;
- The basis for strategic planning and business modeling, conducting strategic experiments;
- The development of new conceptual solutions in the product line and the form of business organization;
- The creation of a single communication space with respect to the logic of business organization and management;
- The training of professional managers in the style of highly successful adaptive companies.

1.3. Classification of business models

Let us consider options for the classification of business models. G. Chesboro (2008) offers six types of business models from the basic models that provide small advantage to the very complex, allowing achieving a significant advantage over other market participants, Table. 2.
This classification is based on the types of selected elements of business models, such as marketing aspects, production, organizational structure, and others.

The classification proposed by A. Osterwalder and I.Pene is the allocation modern business models that were created by companies that win in the competition. The authors identify five types of business models :

- Separation of business models.
- "Long tail."
- Multilateral platforms.
- Free as a business model.
- Open business models.

In further studies the transformation of modern business models will be carried out on the basis of this classification.

1.4. The evolution of business models and modern trends

The history of the development of business models has just over 100 years. According A.Ostervalderu first transformation of the classical business model shop began in 20-30s years. Classical model includes placing the store at the location of potential buyers and demonstration for them goods or services for sale. Business model, which is called "bait-hook" (also known as "razor-blade" or "related products") began to be used at the beginning of the 20^{th} century. This business model is to sell the basic product at a very low price, sometimes below cost ("bait"), then the main profit is earned on the sale of spare parts, consumables or other associated with the use of "bait" of goods or services ("hook"). For example, razors and blades, mobile phones and communication services, printers and cartridges, cameras and photography. In the 1950s, new business models based on organizational, managerial and marketing innovations developed by McDonald's and Toyota. In the 1960s, the innovators were Wal-Mart. 1970 brought new business models from FedEx and Toys R Us; 1980 Blockbuster, Home Depot, Intel and Dell; 1990s from Southwest Airlines, Netflix, eBay, Amazon.com and Starbucks.

Modern companies use the transformation of business models to reduce costs and improve business efficiency, including through outsourcing, new forms and quality of service, new forms of organization of work. Among such companies can be identified manufacturers of clothing, food, cosmetics. However, the vast majority of critical innovations in business models seen in IT companies. And one of the leading trends can be called the change and transformation of business models based on the capabilities of IT convergence technologies (off line IT) and virtual space (on line).

The authors conducted a study to identify new solutions to companies in five kinds of business models Osterwalder and identification of innovative business models, modern successful companies.

Let us consider company and the decisions they have made based on transformation of their existing business models..

a. Separation

This business model assumes division the business model in order to create a well-functioning individual units or individual companies. Here you can allocate the company Zara, which is divided into separate business areas clothes and household goods. The company Compass Health, which produces functional food only from natural ingredients, forms a plant for the production of natural cosmetics. Novosibirsk city site (NGS) began to deepen thematic division on the site in a separate section tourism, business, real estate, labor and others. RelateIQ startup company that has developed a tool for sales management aimed at "smart relations" with the client.

b. «Long tail»

According to the business model long-tail the company is focused on attracting a large number of buyers niche products. On the basis of this principle, were developed specialized platforms, such as a forum of young mothers Sibmama, which was transformed into a platform for buying - selling children's clothes, and then to implement a wide range of consumer goods. And similar business models use such platforms as Pulscen.ru, Price.ru and Avito.ru, which are engaged in the realization industrial and household goods. Similar companies in the auto market is Drom.ru.

Lilu.com - Publishing, which is implementing printing of books to order. Zipcar company based on our platform provide a complete cycle of services for travel planning and for renting a car.

c. Multilateral platforms

The essence of the multilateral platforms is that they are of interest to customers, the company's revenue only, when this resource uses a wide range of potential customers of these companiesй. Internet resource Surveymonkey.ru allows all, involved in sociological surveys and investigation public opinion, to create their profiles and conduct surveys among the general population of the Internet. Company 2do2go and Afisha.ru for everyone provides a selection of interesting events and activities in the city on the basis of defined filters. Company Kursera - a project in the field of mass education online, allowing all Internet users to develop different courses and disciplines based on leading professors in the world. Eventbright - service ticket sales organization and marketing activities. All of these companies are united by the fact that they do not get the revenue from those customers who use their merchandise.

d. FREE

In these business models, at least one significant consumer segment for a long time can obtain the benefit of the free sentences. 2GIS can be attributed to such companies, which has been actively developed as an advertising platform when the majority of the population actively use this service. It is worth noting that the company is actively working to expand the revenue stream. At the initial stage the company must pay for an additional advertising and the release of information about the company in the top 10, but now they offer a wide range of additional services, including an increase in traffic on the company's website and increase the conversions. The company Alawar, Blizzard Entertainment et al. are use the business models in specific game areas, based on the following decision: the game is free, but to get more resources and capabilities of the user pays own.

These business models are used startups that "blew up" the market of individual passenger services "Uber" and "Taxi Driver".

e. Open platforms

In an open business models, creation and preservation of value to the customer is due to the cooperation with external partners. These business models are used only by large corporations to obtain spasmodic changes for the results of their own innovation performance. On the basis of this decision formed freelance platforms such as freelance.ru, allfreelancers.su, freelancerbay.com, golance.ru, nooffi.com. And the kind of services offered on these platforms extended. Web design and copywriting supplemented by florists, auto mechanics, stylists, marketers, seamstresses, beauticians, hairdressers and others. Work platforms Hackaton is based on the model of open innovation. Such platforms exist in the form of commercial projects, and in the form of social. Hackathon is a developer forum, during which experts from different areas of software development (programmers, designers, managers) are working together to solve a problem. Examples of such platforms are ru.droidcon.com, techcrunch.com, hackathon.spb.ru.

In the course of the study it was revealed a new direction, which is the simultaneous development of open platforms and models of the long tail. Internet resource moguza.ru service is the buying and selling of digital services. A large number of workers placed an offer on this platform, and the platform organizes interaction of performers and customers with a guarantee of quality of the provided service. Business model of modern payment platform, such as PayPal, Qiwi purse, is built on a similar basis.

Key findings are summarized in Table 4.

Based on these results, we can conclude that the IT sector remains one of the most favorable for the emergence of a wide range of innovative solutions that companies are laying the foundation for new successful business models. What is the evidence of dominance technology fifth order. Russian Internet community is developing at the level of foreign colleagues and in the near future we can expect new and interesting IT solutions in corporate business, and at startup companies.

Also it should be noted that the formation of a large potential in medium and large companies to optimize business processes based on new IT solutions which will allow to create new business models with fundamentally different service and monetization processes.

1.5. Forecast of development of business models for the future

The formation of the companies of the future impact the set of factors: technological development, depletion of natural resources, social trends, environmental safety, and others. In the current situation formed technological trends, mainly in IT that will have a major impact on changes in the business models of the company in the short and medium term.

On the basis of the emerging powerful potential in the field of IT technologies and new management tools became possible develop networks of business models, when the company will create service division for several companies

- partners. For such companies, a number of business functions may be available for sharing.

With the use of multilateral platforms and open innovation model can be created based on network interactions dynamic teams, which are combined to implement a single idea can be transformed into a startup company to develop on its basis a new business line. Moreover, in this direction is possible to change the roles of customers and performers, at certain stages when the customer takes over the individual works, and artist creates for him a job.

Conclusions

Having considered the new trends in the development of certain types of business models and emerging companies should be noted that new technological solutions have a significant impact on the transformation of the institutional architecture of the companies and their business model. In the future, is expected to increase diversity in the economic space based on the new business model of the company and the creation of new companies based on innovative business models.

References

Strekalova, N.D. (2009) Business model as a useful concept of strategic management - Problems of Modern Economics, N 2 (30)

Kim, C.W., Mauborgne, R. (2005) Blue Ocean Strategy: How to create Uncontested Market Space and Make the Competition Irrelevant. Boston: Harvard Business School Press.

Hamel G., Prakhalad K.Competing for the Future. – M. - 1996

Debelak, D. (2009) Business Models: Principles for creating a thriving organization.- M: Publishing house "Grebennikov", 256 p. Johnson, M., Christensen, K., Kagermann H. (2009) Update business model // Harvard Business Review. №3. – p. 63.

Linder, J., Cantrell, S. (2000) Changing Business Models: Surveying the Landscape. Accenture Institute for Strategic Change. Chesbro, G. (2008) Open business model. IP - Management / Trans. from English. VN Egorova. - M .: Generation, 352p.

Slywotzky, A.J. (2006) Migration values. What will happen to your business the day after tomorrow?- M: «Mann, Ivanov and Ferber», 432 p. Hamel, G. (2007) Leading the revolution. - SPb: BestBusinessBooks, 368 p.

Markides, C. (2010) The new business model: strategy of painless innovation The new business model: strategy of painless innovation. – M.: Alpina Publisher, 298p.

Osterwalder, A., Pine, I. (2013) Building of business models - M: Alpina Publisher Series // Skolkovo, 288 p. http://www.edrawsoft.com/bpmn.php Business Process Modeling Software - BPMN Software https://accuprocess.com/ AccuProcess Modeler Software

http://www.gliffy.com/products/online/ Gliffy Software http://www.conceptdraw.com ConceptDraw Software

***

18

Human Resource Management Strategy as a Small BusinessCompetitive Advantage Tool

Pritidhara Hota

Abstract. The goal of a company's HR management (HRM) strategy is to define its medium-term objectives in HRM and development as well as to specify the main management tools needed for their achievement. The HRM goals set by this strategy should be linked to the company's strategic business goalsand respond in advance to its medium term HRM requirements dictated by both internal and external factors.Corresponding HRM measures and/or policies should be effective in terms of achieving HRM objectives, as well as efficient in terms of their costs and benefits relations. The purpose of this paper based on a qualitative analysis of interviews with small business owners focused on the importance of their HRM strategy for the competitive advantage of their emerging companies, as well as on relevant secondary sources, is to outline a particular methodology and the main characteristics of successful HRM strategies. The main attention is drawn to the linkage of the HRM strategy to the overall companies´ business strategiesas well as their appropriate contents and structure.
Keywords: business strategy; HR management strategy; HR strategy goals and tools; HRM SWOT analysis

1 Introduction

A properly conceived HRM strategy allows a timely response to the future HRM needs of companies [1,2]. Such a response, leaning usually on a companies' HRM SWOT analysis [3,4], can support the strengths of their human resourcesas well as the strengths of their HRM policy measures, eliminate their weaknesses, face in advance the potential externalHRM threats and respond to new HRM external opportunities [5].

The task of the HRM strategy is therefore to clearly define a company's medium-term HRM goals focusing, among other things, on HR development, and to set appropriate tools and measures to achieve them, primarily those whose impact will take some time. The HRM strategy is especially important when HRM can become an important tool for creating the company´s competitive advantage [6]. This quite often concerns small businesses.

An important part of the HRM strategy includes a plan of costs and benefits associated with alternative HRM measures [3,7]. A common practical weakness of HR strategies, on the other hand, is their detachment from the overall business strategy and their rather formal and/or vague nature as well their missing or insufficiently specific measures to achieve their HR goals [2]. In these cases, the HR strategy lacks its efficiency and effectiveness [1,8].

The aim of the paper is to point out the importance and requirements of an effective and efficient HRM strategy and to establish an overall as well as sufficiently detailed methodology on which creating the effective and efficient HRM strategy is based. The main focus is related to the HRM strategy of emerging and small businesses as a tool of their competitive advantage.

2 Methodology

Methodologically, the paper is based on a qualitatively oriented, multiple-case study. Its two mutually interrelated research questions were "*What type of HRM strategies characterize successful emerging and/or small-businesses and which HR strategic management skills do small-business owners need to succeed/survive in their business?"*

Answering these questions was based on the experience and common views of entrepreneurs who successfully survived five years in business. The sample comprised 16 small business owners residing in Central Bohemia and operating small retail shops, personal services and professional service shops and outlets who sustained their business beyond 5 years, employed 10 to 50 employees and mana managed a growing and viable/profitable business entity.

Ms. Pritidhara Hota is Assitant Professor, Global Institute of Management, Bhubaneswar

Data gathering was based on face-to-face semi-structured interviews providing data for answering the above research questions. Data saturation occurred when no new or relevant themes or supporting information emerged during the data collection process (in relation to the methodology suggested by [9,10]).

The main questions presented in these interviews were to find out whether or not the emerging businesses had an HRM strategy, what were the main goals and measures of their HRM strategy, what methods were used in conceiving their HRM strategy, which point, in retrospect, would the entrepreneurs put more stress on when conceiving their HRM strategy, what, in their view, were the main points on which their business, in terms of their HRM strategy, was based, what were the main differences, in their understanding, of their HRM strategy compared with their less successful competitors, what were the main HRM skills they lacked when they started their business, what main HRM skills they gained when managing their business, and if their HRM strategy changed during and after the first years in business.

At the same time, to confront the results gained form the structured interviews, these results (entrepreneurs´ opinions) were compared with the results and recommendations of secondary sources [11,12] dealing with an HRM strategy creation [13,14] and implementation [15] in general and in small companies [16]. Regarding, however, the questions raised in this paper, specifically the question of entrepreneurial skills and steps for generating a successful HRM strategy of emerging and/or small companies, such sources are relatively scarce [16]. Most of the recommendations in this paper, if not stated otherwise (by a reference to literature), are thus original recommendations which raised from the results gained.

An important part of the method used was a distinction made between an effective and an efficient HRM strategy. This issue was raised by the interviewed entrepreneurs and can also be found in relevant literature [15,16]. Those HRM strategies that focus on HR goals and measures supporting competitiveness (current or future competitive advantages of companies are seen as effective HR strategies, whereas those trying to identify HR policies, which at the same time analyse costs and benefits of alternative HR measures financially, are considered as efficient. Evidently, efficient strategies are crucially important for start-ups and small companies [16]

3 Results and Discussion

According to the interviews, the success of a newly established company depends on its ability to conceive a relevant and realistic HRM strategy. The main characteristics of this strategy contributing to the company´s success, especially in early stages of business development, can be summarized as follows.

(1) The starting point of a successful HRM strategy involves its medium-term business goals. Linkage to the company´s strategy is a key prerequisite for a properly defined HRM strategy; on the contrary, its detachment from the company's overall strategy is one of its most serious weaknesses.
(2) An HRM strategy should set out key HR assumptions on which the fulfilment of the company´s objectives will be based, identify corresponding medium-term HRM objectives (sorted usually by individual HR processes) and propose HRM tools or measures (" HR policies “) leading to their achievement.
(3) A successful HRM strategy structure should follow the above mentioned guidelines.

3.1 Structure of HR strategy

The basic scheme of HRM, corresponding usually to the main steps of its creation, consists of five main areas [15], namely:

- a long-term HR vision of the company containing its basic values or credo. This part of the HR strategy is primarily of motivational and communication importance,
- medium-term HR prerequisites necessary for the fulfilment of the company's strategic business goals,
- characteristics (or a critical analysis) of the current HR status of the organization, its strengths and weaknesses and development trends. This step is used to assess which of the HR prerequisites for successful future development the organization should focus on,
- specific HRM goals of the company and measures, HR policies, or their variants, on the basis of which these goals will be achieved. This set of objectives should also include ways to evaluate them,
- a tactical plan, setting out sub-tasks, their deadlines and responsibilities for their fulfilment. The main

HR goals are assigned to individual departments or persons, and the resources that will be released to achieve the goals andthe way in which the fulfilment of the goals will be controlled are determined.
The core of the HRM strategy includes the second, the third and the fourth points, which can be seen as an HRM strategic plan. It is also the starting point for continuously updated annual staffing plans.
The strategic HRM plan of the organization should ideally [17] be divided into five to six areas, corresponding to themain sections of HRM. They consist of a medium-term plan of HR costs, new personnel need and recruitment requirements (or, as the case of may be, dismissal of employees), motivation and remuneration, skills development, performance management (setting personal performance goals and their regular evaluation), or a plan of corporate valuesand corporate culture [18].

3.1 Medium-term HRM assumptions of corporate goals

The starting point for the medium-term HRM strategy encompasses the HR assumptions/prerequisites necessary for the fulfilment of the company's strategic business goals and/or its future market success. The basic tool for their definitionis the organization´s strategic SWOT analysis [17] identifying the main factors of future competitive advantages of the company. Examples of these can involve, for example, high quality and reliability of production, low price, an ability toadopt rapid technological or product innovations, an individual/personal approach to customers, etc.
In order to correctly determine the HRM prerequisites for the company´s successful future development, the entrepreneurs that participated in the interviews mentioned the necessity to ask questions such as: "*What future HRM prerequisites are crucial for the company's business strategy”,* “*What HRM requirements will be needed to achieve its competitive advantages*?" or “*What future employee skills and motivation as well as their management and organizationmethods will be necessary to implement the corporate strategy goals*?
More specifically, the medium-term HR assumptions of the company should relate to all basic HRM areas, i.e. the number of employees, their structure, skills and motivation, their costs, how these employees will need to be managed (for example, what powers will need to be delegated), what organizational structure will be most suitable for the company,what elements of corporate culture will be relied on, etc.
Determining the HR prerequisites that will be needed to fulfil the corporate strategy is, according to most of the entrepreneurs questioned, not only the initial, but also the most important part of the HRM strategy. It is therefore important that the people who create the HRM strategy (if it is not created by the entrepreneurs themselves) understand the critical factors of the future success of the company well.

3.2 Differences in HRM assumptions of different business strategies

HRM assumptions of different business strategies can differ significantly and therefore cannot be mechanically takenover from other companies. For example, HRM assumptions corresponding to the strategy of the lowest possible costs and/or prices will be significantly different from the assumptions required by strategies based on an individual approachto customers or rapid innovation capacity [17].
This may be illustrated by specific examples which the research, or enquiry, revealed. For an organization whose competitiveness is based on technological innovations and their rapid introduction to the market, i.e. a company operatingin the field of new technologies, the main HRM prerequisites include the ability to acquire, retain and use top talent and ensure their further development.
In a company of this type, the long-term need to acquire and retain these employees may take precedence over the (short-term) effort to save on their costs. Financing their development should therefore not decrease even in periods of reducing business costs. Another HRM assumption may relate to their remuneration: the basic and starting salaries of individual employees working in equally qualified positions in these conditions may differ significantly depending on their personal abilities or contribution to the creation and introduction of new products.
On the other hand, HRM prerequisites of a company with a decisive emphasis on reducing and controlling operatingcosts (for example, companies facing strong price competition) will be significantly different. The determination of basicand starting salaries should be based primarily on the requirements of internal equality in remuneration and group motivation. The reason is that teamwork and group performance are usually more important here than the individual contribution or performance of each employee. Differences in the level of basic salaries therefore lack economic justification (individuals with a higher price do not pay) and may also be a threat to teamwork [8].

3.3 Analysis of the current HR status

The second basic step in creating an HRM strategy is to compare the HR prerequisites necessary to fulfil the company's business strategy with the current or near future HRM situation of the company and/or its development tendencies. The purpose of this step is to analyse the main weaknesses or limitations of the current HRM situation of the company, especially those that need to be addressed well in advance [19]. This analysis should, according to the successful entrepreneurs surveyed, ask questions such as: "*How do our currentHR situation and development meet our future HR as well as HRM requirements and what are its main weaknesses?*", "*What limitations in terms of future requirements are related the abilities of our employees or the methods they develop?", "From the viewpoint of important HRM preconditions for future development, what limitations does our way of managing, motivating or rewarding employees bring?", "What limitations can our organization, corporate culture, etc.place*?".
Answers to these questions reveal HR weaknesses/bottlenecks in the given company (both in terms of its current stateor development trends), which the HRM strategy should try to eliminate.

3.1 HR goals and measures

The third main step in creating an HRM strategy is setting medium-term HRM goals. They are designed to overcomethe existing HRM weaknesses and respond in a timely manner to adverse external HRM trends concerning the organization. The measures necessary to achieve these goals should correspond to them.
Particular HR goals, according to the successful entrepreneurs surveyed, should be as specific as possible: if possible,they should be set in the form of specific values of HR indicators, or other ways in which the achievement of the set goalscan be monitored. The specificity of the objectives and the proposed measures as well as the method of their evaluation is usually the most important prerequisite for this step, as pointed out by the successful entrepreneurs.
For example, if the identified weakness involves increased HR costs associated with a higher turnover of new employees, the HR strategy may include a specific HRM objective *"to reduce the turnover rate in the first year of work to 5%*" and indicate measures to achieve it. Other examples include improving employee selection, their adaptation, etc.

3.2 Variant (alternative) HRM measures

An important part of this step is to consider and assess alternative tools or measures that will enable to eliminate the identified HRM weaknesses. An example one of the entrepreneurs stated is the company's effort to respond to employeedissatisfaction with the way they are evaluated (its subjectively perceived injustice), which may lead to a proposal to trainmanagers in the impartial evaluation of subordinates. However, managers may be very aware of the bias of their evaluation, but may not be sufficiently motivated to eliminate it. Therefore, their training is not an adequate solution.
Variant HR tools or measures should be assessed both in terms of their expected benefits and their (direct and indirect)costs. As in other areas of company management, the evaluation of alternative procedures should be based on an analysisof the expected impact of the proposed measures on the costs and revenues of the company, i.e. cost-benefit analysis, successful entrepreneurs suggest.
An example could be a measure consisting in adjusting the method of evaluating candidates in a selection procedure.The impact of this measure on costs may be either a reduction or an increase in the direct costs of the selection process (due to a reduction or an extension of its existing activities, a shortening or a lengthening of its duration, etc.) or an impacton its indirect costs (due to a higher or a lower probability of a wrong HR decision).
Part of this step of the HRM strategy should be the identification of factors that affect the probability of success or failure of the proposed measures. Factors that increase the likelihood of success of a proposed measure, according to thesuccessful entrepreneurs surveyed, may include, for example, employees requiring similar measures, the measure facilitating the work of managers, having influential supporters, or similar measures having been successfully implemented in the past. On the contrary, risk factors may include the fact that managers or employees were not involvedin related training, the company does not have sufficient know-how for implementing the measure or its time schedule isnot realistic, etc.

3.3 Evaluation of HR measures implemented

The way in which results of the proposed measures will be evaluated must, according to the successful entrepreneurssurveyed, be determined in advance. In simpler cases, this assessment can be based on way how ta particular proposed measure, such as a change in the way of how higher performance is remunerated, has reflected in changes in employee behaviour or satisfaction. In the case of more complex or costly measures, their impact assessment should be based on performance indicators. Examples may include savings in HR costs, increased productivity, reduced scrap, etc. Evaluations of this type may be considered, for example, when assessing the results of a longer-term program aimed at increasing employee motivation. This experience of the successful entrepreneurs surveyed corresponds to certain recommendation in literature [20].

For long-term measures important for achieving the company's strategic HR goals (for example, increasing customersatisfaction, reducing absenteeism or turnover, etc.), evaluating of HR measures should also be based on estimating theirfinancial return, using ROI, i.e. return on investment indicator. This requires to fully define the expected costs and benefitsof the planned measure in financial terms and comparing them with one another [20].

In addition to setting out the ways in which the success of the proposed measures will be assessed, this section of theHRM strategy should also include setting deadlines for the main strategic objectives to be critically reviewed in order toassess their relevance [21].

4 Conclusion

The importance of any HRM strategy resides in the fact that it allows to respond correctly and well in advance to future, both internal and external, HR and HRM requirements of the company.

The majority of surveys´ participants claimed that the main HRM challenges for their business development concerned HR related issues, especially "*a high rate of employee turnover and/or hiring the right people",* typical issues demandingan appropriate strategy approach. At the same time, most of the respondents noted the challenge of keeping staff motivated and happy, as well as keeping an open dialog and clear communications of expectations which they regarded as critical. Though already offering motivational rewards, most companies stressed the necessity of more effective and efficient remuneration strategy. In a similar context, a lot of them expressed a strategic need to improve their interview process tomake better hiring decisions.

A large number of the participants stated that, similar to any successful business strategy, the related HRM strategy requires an ability to critically analyse the current HR situation of the organization, both in terms of staff quality and its management and organization, and an ability to bring, if necessary, new or alternative solutions.

Contrary to some simple views, formulating the company's HRM strategy in their opinion means not only determiningwhat the number of its employees should be in the future or what their qualification structure should be, but also how they should be managed, motivated and rewarded, what new skills the company should develop, what methods of development should be used, how it might be necessary to adapt the company's organizational structure, redefine some jobs, or which measures should be taken to develop the company culture..

The main and, as the author believes, original findings of this paper can be summarized in the following sentences. The main conclusion, which the successful entrepreneurs approached in the survey agreed on, is related to the quality ofthe HRM strategy, i.e. its effectiveness and cost-efficiency, depending on its connection to the business strategy. The precondition for this is the correct determination of HRM assumptions needed for keeping and further development of current and future competitive advantages of the company, concretization of HRM goals as well as a clear and sufficientlyspecific determination of longer-term measures or HRM policies enabling their fulfilment. The cost-effectiveness of a particular HRM strategy, they claimed, usually also presupposes an assessment of alternative HRM measures and policies, including an estimate of their costs and expected benefits.

Recommendations for further research include focusing on different sizes of small business in different industries andvarying geographical locations. Future researchers should also consider studying the issue the extant research has not effectively explained, i.e. why differences in employee-based resources persist across firms that have adopted the same firm-level HR strategy. Moreover, focusing on each of the specific parts of HRM strategy identified within this paper would provide more detailed areas for additional research.

References

1. M. Armstrong, D. Brown. *Strategic Human Resource Management: Back to the future?* Brighton: Institute forEmployment Studies (2019)
2. J. Storey, P. M. Wright, D. Ulrich. *Strategic Human Resource Management: A Research Overview*. London:Routledge. ISBN: 9780429490217 (2019)
3. S. A. Alghamdi. The Impact of HRM strategy on Organizational Effectiveness. *American Journal of Theoreticaland Applied Business*. **6**(4), 91-97 (2020)
4. S. Hillebrecht. *Die Personalstrategie und Personalplanung des Unternehmens, in: Perspek tivenorientierte Personalwirtschaft.* Wiesbaden: Springer Fachmedien Wiesbaden. ISBN: 9783658320935 (2020)
5. F. R. David. Strategic Management: A Competitive Advantage Approach, Concepts & Cases. 15th Ed. New Jersey:Prentice Hall. ISBN: 9780133444797 (2019)
6. P. Boxall. HRM strategy and competitive advantage in the service sector. *Human Resource Management Journal*. **13**(3), 5-20 (2003)
7. C. Chadwick, C. Flinchbaugh. Searching for competitive advantage in the HRM-firm performance relationship. *Academy of Management Perspectives.* **35**(2) (2021)
8. C. Sheehan, H. De Cieri, B. Cooper, T. Shea. Strategic implications of HR role management in a dynamicenvironment. *Personnel Review*. **45**(2), 353-373 (2016)
9. N. K. Denzin, Y. S. Lincoln. *The Sage handbook of qualitative research.* 4th ed. Thousand Oaks: Sage Publications.ISBN: 9781412974172 (2012)
10. A. Trost. *Neue Personalstrategien zwischen Stabilität und Agilität*. Wiesbaden: Springer Fachmedien Wiesbaden.ISBN: 9783662574072 (2018)
11. E. Knezović, S. Bušatlić, O. Riđić. Strategic human resource management in small and medium enterprises. *International Journal of Human Resources Development and Management.* **20**(2), 114-139 (2020)
12. T. Bagga, S. Srivastava. SHRM: alignment of HR function with business strategy. *Strategic HR Review.* **13**(4,5)(2014)
13. L. Kempová. The Creating of HR Strategy and its Implementation to Organization XYZ. *Acta academicakarviniensia.* **3**(2), 33-41 doi:10.25142/aak.2013.022 (2013)
14. E. Lawler, J. Boudreau. *Effective HR Management: A Global Analysis, Stanford: Stanford University Press.* ISBN:9780804776875 (2012)
15. J. Urban. Jak propojit personální strategii s celkovou strategií podniku. *Práce a mzda*. (2020)
16. J. Urban. *40 manažerských mýtů*. Praha: Grada Publishing a. s. ISBN: 9788027105717 (2018)
17. A. Trost. *Die Entwicklung einer Personalstrategie*. Wiesbaden: Springer Fachmedien Wiesbaden. doi:10.1007/978-3-662-57407-2_3 (2018)
18. J. E. Delery, D. Roumpi. Strategic human resource management, human capital and competitive advantage: is thefield going in circles? *Human Resource Management Journal*. **27**(1), 1-21 doi:org/10.1111/1748-8583.12137 (2017)
19. A. Upamali, J. Weerawardena, M.-L. Verreynne. Learning capabilities, human resource management innovationand competitive advantage. *The International Journal of Human Resource Management.* 29(10), 1736-1766 (2018)
20. P. Wright, A. J. Nyberg, R. E. Ployhart. A research revolution in SHRM: New challenges and new researchdirections. *Research in personnel and human resources management*. **36**, 141-161 (2018)
21. M. Brussel, S. Stella. *Praxishandbuch Personalmanagement für Handwerksunternehmen*. Wiesbaden: SpringerFachmedien Wiesbaden. ISBN: 3662583151 (2019)

***

19

Human Resource Management Strategy as a Small BusinessCompetitive Advantage Tool

Shree Kanungo

Abstract. The goal of a company's HR management (HRM) strategy is to define its medium-term objectives in HRM and development as well as to specify the main management tools needed for their achievement. The HRM goals set by this strategy should be linked to the company's strategic business goalsand respond in advance to its medium term HRM requirements dictated by both internal and external factors.Corresponding HRM measures and/or policies should be effective in terms of achieving HRM objectives, as well as efficient in terms of their costs and benefits relations. The purpose of this paper based on a qualitative analysis of interviews with small business owners focused on the importance of their HRM strategy for the competitive advantage of their emerging companies, as well as on relevant secondary sources, is to outline a particular methodology and the main characteristics of successful HRM strategies. The main attention is drawn to the linkage of the HRM strategy to the overall companies´ business strategiesas well as their appropriate contents and structure.

Keywords: business strategy; HR management strategy; HR strategy goals and tools; HRM SWOT analysis

1 Introduction

A properly conceived HRM strategy allows a timely response to the future HRM needs of companies [1,2]. Such a response, leaning usually on a companies' HRM SWOT analysis [3,4], can support the strengths of their human resourcesas well as the strengths of their HRM policy measures, eliminate their weaknesses, face in advance the potential externalHRM threats and respond to new HRM external opportunities [5].

The task of the HRM strategy is therefore to clearly define a company's medium-term HRM goals focusing, among other things, on HR development, and to set appropriate tools and measures to achieve them, primarily those whose impact will take some time. The HRM strategy is especially important when HRM can become an important tool for creating the company´s competitive advantage [6]. This quite often concerns small businesses.

An important part of the HRM strategy includes a plan of costs and benefits associated with alternative HRM measures [3,7]. A common practical weakness of HR strategies, on the other hand, is their detachment from the overall business strategy and their rather formal and/or vague nature as well their missing or insufficiently specific measures to achieve their HR goals [2]. In these cases, the HR strategy lacks its efficiency and effectiveness [1,8].

The aim of the paper is to point out the importance and requirements of an effective and efficient HRM strategy and to establish an overall as well as sufficiently detailed methodology on which creating the effective and efficient HRM strategy is based. The main focus is related to the HRM strategy of emerging and small businesses as a tool of their competitive advantage.

2 Methodology

Methodologically, the paper is based on a qualitatively oriented, multiple-case study. Its two mutually interrelated research questions were "*What type of HRM strategies characterize successful emerging and/or small-businesses and which HR strategic management skills do small-business owners need to succeed/survive in their business?"*

Answering these questions was based on the experience and common views of entrepreneurs who successfully survived five years in business. The sample comprised 16 small business owners residing in Central Bohemia and operating small retail shops, personal services and professional service shops and outlets who sustained their business beyond 5 years, employed 10 to 50 employees and mana managed a growing and viable/profitable business entity.

Dr. Shree Kanungo, Associate Professor, ABIT, Bhubaneswar

Data gathering was based on face-to-face semi-structured interviews providing data for answering the above research questions. Data saturation occurred when no new or relevant themes or supporting information emerged during the data collection process (in relation to the methodology suggested by [9,10]).
The main questions presented in these interviews were to find out whether or not the emerging businesses had an HRM strategy, what were the main goals and measures of their HRM strategy, what methods were used in conceiving their HRM strategy, which point, in retrospect, would the entrepreneurs put more stress on when conceiving their HRM strategy, what, in their view, were the main points on which their business, in terms of their HRM strategy, was based, what were the main differences, in their understanding, of their HRM strategy compared with their less successful competitors, what were the main HRM skills they lacked when they started their business, what main HRM skills they gained when managing their business, and if their HRM strategy changed during and after the first years in business.
At the same time, to confront the results gained form the structured interviews, these results (entrepreneurs´ opinions)were compared with the results and recommendations of secondary sources [11,12] dealing with an HRM strategy creation [13,14] and implementation [15] in general and in small companies [16]. Regarding, however, the questions raised in thispaper, specifically the question of entrepreneurial skills and steps for generating a successful HRM strategy of emergingand/or small companies, such sources are relatively scarce [16]. Most of the recommendations in this paper, if not statedotherwise (by a reference to literature), are thus original recommendations which raised from the results gained.
An important part of the method used was a distinction made between an effective and an efficient HRM strategy. This issue was raised by the interviewed entrepreneurs and can also be found in relevant literature [15,16]. Those HRM strategies that focus on HR goals and measures supporting competitiveness (current or future competitive advantages of companies are seen as effective HR strategies, whereas those trying to identify HR policies, which at the same time analyse costs and benefits of alternative HR measures financially, are considered as efficient. Evidently, efficient strategies are crucially important for start-ups and small companies [16]

3 Results and Discussion

According to the interviews, the success of a newly established company depends on its ability to conceive a relevantand realistic HRM strategy. The main characteristics of this strategy contributing to the company´s success, especially inearly stages of business development, can be summarized as follows.

(1) The starting point of a successful HRM strategy involves its medium-term business goals. Linkage to the company´s strategy is a key prerequisite for a properly defined HRM strategy; on the contrary, its detachment from the company's overall strategy is one of its most serious weaknesses.
(2) An HRM strategy should set out key HR assumptions on which the fulfilment of the company´s objectives will bebased, identify corresponding medium-term HRM objectives (sorted usually by individual HR processes) and propose HRM tools or measures (" HR policies “) leading to their achievement.
(3) A successful HRM strategy structure should follow the above mentioned guidelines.

3.1 Structure of HR strategy

The basic scheme of HRM, corresponding usually to the main steps of its creation, consists of five main areas [15], namely:

- a long-term HR vision of the company containing its basic values or credo. This part of the HR strategy is primarily of motivational and communication importance,
- medium-term HR prerequisites necessary for the fulfilment of the company's strategic business goals,
- characteristics (or a critical analysis) of the current HR status of the organization, its strengths and weaknesses and development trends. This step is used to assess which of the HR prerequisites for successful future development the organization should focus on,
- specific HRM goals of the company and measures, HR policies, or their variants, on the basis of which these goals will be achieved. This set of objectives should also include ways to evaluate them,

- a tactical plan, setting out sub-tasks, their deadlines and responsibilities for their fulfilment. The main HR goals are assigned to individual departments or persons, and the resources that will be released to achieve the goals andthe way in which the fulfilment of the goals will be controlled are determined.

The core of the HRM strategy includes the second, the third and the fourth points, which can be seen as an HRM strategic plan. It is also the starting point for continuously updated annual staffing plans.

The strategic HRM plan of the organization should ideally [17] be divided into five to six areas, corresponding to themain sections of HRM. They consist of a medium-term plan of HR costs, new personnel need and recruitment requirements (or, as the case of may be, dismissal of employees), motivation and remuneration, skills development, performance management (setting personal performance goals and their regular evaluation), or a plan of corporate valuesand corporate culture [18].

3.1 Medium-term HRM assumptions of corporate goals

The starting point for the medium-term HRM strategy encompasses the HR assumptions/prerequisites necessary for the fulfilment of the company's strategic business goals and/or its future market success. The basic tool for their definitionis the organization´s strategic SWOT analysis [17] identifying the main factors of future competitive advantages of the company. Examples of these can involve, for example, high quality and reliability of production, low price, an ability toadopt rapid technological or product innovations, an individual/personal approach to customers, etc.

In order to correctly determine the HRM prerequisites for the company´s successful future development, the entrepreneurs that participated in the interviews mentioned the necessity to ask questions such as: "*What future HRM prerequisites are crucial for the company's business strategy",* "*What HRM requirements will be needed to achieve its competitive advantages*?" or "*What future employee skills and motivation as well as their management and organizationmethods will be necessary to implement the corporate strategy goals*?

More specifically, the medium-term HR assumptions of the company should relate to all basic HRM areas, i.e. the number of employees, their structure, skills and motivation, their costs, how these employees will need to be managed (for example, what powers will need to be delegated), what organizational structure will be most suitable for the company,what elements of corporate culture will be relied on, etc.

Determining the HR prerequisites that will be needed to fulfil the corporate strategy is, according to most of the entrepreneurs questioned, not only the initial, but also the most important part of the HRM strategy. It is therefore important that the people who create the HRM strategy (if it is not created by the entrepreneurs themselves) understand the critical factors of the future success of the company well.

3.2 Differences in HRM assumptions of different business strategies

HRM assumptions of different business strategies can differ significantly and therefore cannot be mechanically takenover from other companies. For example, HRM assumptions corresponding to the strategy of the lowest possible costs and/or prices will be significantly different from the assumptions required by strategies based on an individual approachto customers or rapid innovation capacity [17].

This may be illustrated by specific examples which the research, or enquiry, revealed. For an organization whose competitiveness is based on technological innovations and their rapid introduction to the market, i.e. a company operatingin the field of new technologies, the main HRM prerequisites include the ability to acquire, retain and use top talent and ensure their further development.

In a company of this type, the long-term need to acquire and retain these employees may take precedence over the (short-term) effort to save on their costs. Financing their development should therefore not decrease even in periods of reducing business costs. Another HRM assumption may relate to their remuneration: the basic and starting salaries of individual employees working in equally qualified positions in these conditions may differ significantly depending on their personal abilities or contribution to the creation and introduction of new products.

On the other hand, HRM prerequisites of a company with a decisive emphasis on reducing and controlling operatingcosts (for example, companies facing strong price competition) will be significantly different. The determination of basicand starting salaries should be based primarily on the requirements of internal equality in remuneration and group motivation. The reason is that teamwork and group performance are usually more important here than the individual contribution or performance of each employee. Differences in the level of basic salaries therefore lack economic justification (individuals with a higher price do not pay) and may also be a threat to teamwork [8].

3.3 Analysis of the current HR status

The second basic step in creating an HRM strategy is to compare the HR prerequisites necessary to fulfil the company's business strategy with the current or near future HRM situation of the company and/or its development tendencies. The purpose of this step is to analyse the main weaknesses or limitations of the current HRM situation of the company, especially those that need to be addressed well in advance [19]. This analysis should, according to the successful entrepreneurs surveyed, ask questions such as: "*How do our currentHR situation and development meet our future HR as well as HRM requirements and what are its main weaknesses?*", "*What limitations in terms of future requirements are related the abilities of our employees or the methods they develop?", "From the viewpoint of important HRM preconditions for future development, what limitations does our way of managing, motivating or rewarding employees bring?", "What limitations can our organization, corporate culture, etc.place*?".
Answers to these questions reveal HR weaknesses/bottlenecks in the given company (both in terms of its current stateor development trends), which the HRM strategy should try to eliminate.

3.1 HR goals and measures

The third main step in creating an HRM strategy is setting medium-term HRM goals. They are designed to overcomethe existing HRM weaknesses and respond in a timely manner to adverse external HRM trends concerning the organization. The measures necessary to achieve these goals should correspond to them.
Particular HR goals, according to the successful entrepreneurs surveyed, should be as specific as possible: if possible,they should be set in the form of specific values of HR indicators, or other ways in which the achievement of the set goalscan be monitored. The specificity of the objectives and the proposed measures as well as the method of their evaluation is usually the most important prerequisite for this step, as pointed out by the successful entrepreneurs.
For example, if the identified weakness involves increased HR costs associated with a higher turnover of new employees, the HR strategy may include a specific HRM objective *"to reduce the turnover rate in the first year of work to 5%"* and indicate measures to achieve it. Other examples include improving employee selection, their adaptation, etc.

3.2 Variant (alternative) HRM measures

An important part of this step is to consider and assess alternative tools or measures that will enable to eliminate the identified HRM weaknesses. An example one of the entrepreneurs stated is the company's effort to respond to employeedissatisfaction with the way they are evaluated (its subjectively perceived injustice), which may lead to a proposal to trainmanagers in the impartial evaluation of subordinates. However, managers may be very aware of the bias of their evaluation, but may not be sufficiently motivated to eliminate it. Therefore, their training is not an adequate solution.
Variant HR tools or measures should be assessed both in terms of their expected benefits and their (direct and indirect)costs. As in other areas of company management, the evaluation of alternative procedures should be based on an analysisof the expected impact of the proposed measures on the costs and revenues of the company, i.e. cost-benefit analysis, successful entrepreneurs suggest.
An example could be a measure consisting in adjusting the method of evaluating candidates in a selection procedure.The impact of this measure on costs may be either a reduction or an increase in the direct costs of the selection process (due to a reduction or an extension of its existing activities, a shortening or a lengthening of its duration, etc.) or an impacton its indirect costs (due to a higher or a lower probability of a wrong HR decision).
Part of this step of the HRM strategy should be the identification of factors that affect the probability of success or failure of the proposed measures. Factors that increase the likelihood of success of a proposed measure, according to thesuccessful entrepreneurs surveyed, may include, for example, employees requiring similar measures, the measure facilitating the work of managers, having influential supporters, or similar measures having been successfully implemented in the past. On the contrary, risk factors may include the fact that managers or employees were not involvedin related training, the company does not have sufficient know-how for implementing the measure or its time schedule isnot realistic, etc.

3.3 Evaluation of HR measures implemented

The way in which results of the proposed measures will be evaluated must, according to the successful entrepreneurssurveyed, be determined in advance. In simpler cases, this assessment can be based on way how ta particular proposed measure, such as a change in the way of how higher performance is remunerated, has reflected in changes in employee behaviour or satisfaction. In the case of more complex or costly measures, their impact assessment should be based on performance indicators. Examples may include savings in HR costs, increased productivity, reduced scrap, etc. Evaluations of this type may be considered, for example, when assessing the results of a longer-term program aimed at increasing employee motivation. This experience of the successful entrepreneurs surveyed corresponds to certain recommendation in literature [20].

For long-term measures important for achieving the company's strategic HR goals (for example, increasing customersatisfaction, reducing absenteeism or turnover, etc.), evaluating of HR measures should also be based on estimating theirfinancial return, using ROI, i.e. return on investment indicator. This requires to fully define the expected costs and benefitsof the planned measure in financial terms and comparing them with one another [20].

In addition to setting out the ways in which the success of the proposed measures will be assessed, this section of theHRM strategy should also include setting deadlines for the main strategic objectives to be critically reviewed in order toassess their relevance [21].

4 Conclusion

The importance of any HRM strategy resides in the fact that it allows to respond correctly and well in advance to future, both internal and external, HR and HRM requirements of the company.

The majority of surveys´ participants claimed that the main HRM challenges for their business development concerned HR related issues, especially "*a high rate of employee turnover and/or hiring the right people",* typical issues demandingan appropriate strategy approach. At the same time, most of the respondents noted the challenge of keeping staff motivated and happy, as well as keeping an open dialog and clear communications of expectations which they regarded as critical. Though already offering motivational rewards, most companies stressed the necessity of more effective and efficient remuneration strategy. In a similar context, a lot of them expressed a strategic need to improve their interview process tomake better hiring decisions.

A large number of the participants stated that, similar to any successful business strategy, the related HRM strategy requires an ability to critically analyse the current HR situation of the organization, both in terms of staff quality and its management and organization, and an ability to bring, if necessary, new or alternative solutions.

Contrary to some simple views, formulating the company's HRM strategy in their opinion means not only determiningwhat the number of its employees should be in the future or what their qualification structure should be, but also how they should be managed, motivated and rewarded, what new skills the company should develop, what methods of development should be used, how it might be necessary to adapt the company's organizational structure, redefine some jobs, or which measures should be taken to develop the company culture..

The main and, as the author believes, original findings of this paper can be summarized in the following sentences. The main conclusion, which the successful entrepreneurs approached in the survey agreed on, is related to the quality ofthe HRM strategy, i.e. its effectiveness and cost-efficiency, depending on its connection to the business strategy. The precondition for this is the correct determination of HRM assumptions needed for keeping and further development of current and future competitive advantages of the company, concretization of HRM goals as well as a clear and sufficientlyspecific determination of longer-term measures or HRM policies enabling their fulfilment. The cost-effectiveness of a particular HRM strategy, they claimed, usually also presupposes an assessment of alternative HRM measures and policies, including an estimate of their costs and expected benefits.

Recommendations for further research include focusing on different sizes of small business in different industries andvarying geographical locations. Future researchers should also consider studying the issue the extant research has not effectively explained, i.e. why differences in employee-based resources persist across firms that have adopted the same firm-level HR strategy. Moreover, focusing on each of the specific parts of HRM strategy identified within this paper would provide more detailed areas for additional research.

References

1. M. Armstrong, D. Brown. *Strategic Human Resource Management: Back to the future?* Brighton: Institute forEmployment Studies (2019)
2. J. Storey, P. M. Wright, D. Ulrich. *Strategic Human Resource Management: A Research Overview*. London:Routledge. ISBN: 9780429490217 (2019)
3. S. A. Alghamdi. The Impact of HRM strategy on Organizational Effectiveness. *American Journal of Theoreticaland Applied Business*. **6**(4), 91-97 (2020)
4. S. Hillebrecht. *Die Personalstrategie und Personalplanung des Unternehmens, in: Perspek tivenorientierte Personalwirtschaft.* Wiesbaden: Springer Fachmedien Wiesbaden. ISBN: 9783658320935 (2020)
5. F. R. David. Strategic Management: A Competitive Advantage Approach, Concepts & Cases. 15th Ed. New Jersey:Prentice Hall. ISBN: 9780133444797 (2019)
6. P. Boxall. HRM strategy and competitive advantage in the service sector. *Human Resource Management Journal*. **13**(3), 5-20 (2003)
7. C. Chadwick, C. Flinchbaugh. Searching for competitive advantage in the HRM-firm performance relationship. *Academy of Management Perspectives.* **35**(2) (2021)
8. C. Sheehan, H. De Cieri, B. Cooper, T. Shea. Strategic implications of HR role management in a dynamicenvironment. *Personnel Review*. **45**(2), 353-373 (2016)
9. N. K. Denzin, Y. S. Lincoln. *The Sage handbook of qualitative research.* 4th ed. Thousand Oaks: Sage Publications.ISBN: 9781412974172 (2012)
10. Trost. *Neue Personalstrategien zwischen Stabilität und Agilität*. Wiesbaden: Springer Fachmedien Wiesbaden.ISBN: 9783662574072 (2018)
11. E. Knezović, S. Bušatlić, O. Riđić. Strategic human resource management in small and medium enterprises. *International Journal of Human Resources Development and Management.* **20**(2), 114-139 (2020)
12. T. Bagga, S. Srivastava. SHRM: alignment of HR function with business strategy. *Strategic HR Review.* **13**(4,5)(2014)
13. L. Kempová. The Creating of HR Strategy and its Implementation to Organization XYZ. *Acta academicakarviniensia.* **3**(2), 33-41 doi:10.25142/aak.2013.022 (2013)
14. E. Lawler, J. Boudreau. *Effective HR Management: A Global Analysis, Stanford: Stanford University Press.* ISBN:9780804776875 (2012)
15. J. Urban. Jak propojit personální strategii s celkovou strategií podniku. *Práce a mzda*. (2020)
16. J. Urban. *40 manažerských mýtů*. Praha: Grada Publishing a. s. ISBN: 9788027105717 (2018)
17. A. Trost. *Die Entwicklung einer Personalstrategie*. Wiesbaden: Springer Fachmedien Wiesbaden. doi:10.1007/978-3-662-57407-2_3 (2018)
18. J. E. Delery, D. Roumpi. Strategic human resource management, human capital and competitive advantage: is thefield going in circles? *Human Resource Management Journal*. **27**(1), 1-21 doi:org/10.1111/1748-8583.12137 (2017)
19. A. Upamali, J. Weerawardena, M.-L. Verreynne. Learning capabilities, human resource management innovation and competitive advantage. *The International Journal of Human Resource Management.* 29(10), 1736-1766 (2018)
20. P. Wright, A. J. Nyberg, R. E. Ployhart. A research revolution in SHRM: New challenges and new researchdirections. *Research in personnel and human resources management*. **36**, 141-161 (2018)
21. M. Brussel, S. Stella. *Praxishandbuch Personalmanagement für Handwerksunternehmen*. Wiesbaden: SpringerFachmedien Wiesbaden. ISBN: 3662583151 (2019)

***

20

Simplified Business Model

Himadri Ranjan Mishra

ABSTRACT

The purpose of this paper is to introduce the concept of business model to small, medium, and as well to large businesses in a simple framework. The paper presents the conceptual framework for the business model grounded withthe quantitative business model that emphasizes profit motives. The quantitative business model, which has been in existence from the inception of business and commerce, refers to revenues minus costs and expenses equal to profits.The business model is created with the understanding of the quantitative model that is, and it shows how revenues aregenerated, profits are made, and costs are managed. The paper presents a simplified framework for developing a business model in a three-step process. In the three-step process for creating a business model, all participants' profit motives are considered critical for the success of the business process. The simple procedure for creating a business model presented in the paper would help both small and large businesses improve the business model creation processes to generate more value for both the customers and the companies.

Keywords: business model, small businesses, profit motives, three steps approach

1. Introduction

According to the U.S. Small Business Administration (2020) data, approximately 90 percent of the total businesses inthe U.S. are small businesses. Additionally, it is also reported that approximately five out of ten small businesses fail in the first five years. One of the reasons for the failure among small businesses is the lack of adequate cash flows. A sufficient understanding of the business model may help small businesses in developing strategies to generate revenues,manage costs, and ultimately generate positive cash flows. It should be noted that the failure of small businesses in this respect is not just a problem in the U.S.; in reality, it is a global problem. There are millions of small businesses worldwide that could benefit from a better understanding of the business model so that they can succeed in the globalmarketplace. A clearer and simpler process for designing a business model would help both small and large businesses worldwide improve the processes involved in developing their businesses to generate more value for both the customers and the companies. It will also help individual investors make more rational decisions based on a substantiallevel of understanding with respect to the businesses they are interested in.

Managers or owner-operators are always interested in understanding the process involved in generating profits for theirbusinesses. The company's business model can explain this process. The quantitative business model, which has beenin existence from the inception of trade and commerce, refers to revenues minus costs and expenses, with what remainsequivalent to profits. The researcher's encounters with owner-operators, managers, and investors worldwide found thatmost of them are familiar with the quantitative business model.

2. What Is a Business Model?

There is no clear definition of the business model in the research or business community. The term “business model” is currently used to describe the various elements of business processes, including strategy. According to Osterwalderet al. (2005), the term was first used in the academic literature in 1957 (Bellman, et al., 1957). Researchers in the past have presented a variety of definitions and explanations of the business model (Magretta, 2002; Hamel, 2000; Chesbrough & Rosenbloom, 2002; Chesbrough, 2006; Johnson, et al., 2008; Zott & Amit, 2010; Teece, 2010; Chatterjee, 2013). There is no universally accepted definition that researchers agree on to explain of the business model. The term is generally used for identifying several business processes and strategies. The paper aims to identify simple steps involved in developing a business model using the primary reason for the existence of the business. Businesses exist to make profits, and all the participants in business have a profit motive.

Dr. Himadri Ranjan Mishra, Associate Professor, Global Institute of Management, Bhubaneswar

This approach is slightly different from the explanation of the business model by the researchers in the past. The three variables in the models are revenues, costs, and profits because the variables are critical for the company's survival, profits, and growth. Businesses should build the business model using the three variables of the quantitative business model.

Table 1. Quantitative business model

Revenues	*minus* Costs	*equals* Profits

In this paper, “business model” is defined as a design for solving customer problems and achieving the organization’sgoals. The goal of an organization is to minimize costs and maximize the long-term profits or wealth of the organization. While the term “business model” may have first appeared in the academic literature in 1957, the newspaper industry introduced the concept of the business model during the 17th century. An analysis of newspaper businesses from the 1700s will help illustrate that business models are designed or developed to create business opportunities. While newspaper businesses did not use the label of business model in describing the design of their business processes, they were concerned with how to generate revenue, manage costs, and generate profits.

The businesses were aware that the general public is the customer for information consumption. There was demand for newspaper services, but the customer could not pay the cost-plus-profit price for the newspaper because of their limited disposable income. At the same time, the newspapers could not print paper at an affordable cost for the customers. To create an opportunity for newspaper businesses, they explored alternative ways to generate revenue. Anew business model was developed to offer consumers the newspaper at an affordable price and focus on revenue, costs, and profits. They realized that the individual business cost of communicating with the customer was very high. Thus, they provided advertising space in the newspapers at a reduced cost for promoting products and services. The new model was developed to generate revenue from advertisers to make the newspaper affordable to the consumers. Lowering prices increased the circulation of the papers and the market coverage for the advertisers. An increase in circulation generated growth in the company’s revenues, reduced the unit cost of the newspaper as a result of the spreadof fixed costs, and increased the profits of the company. This model, which includes generating revenue, managing costs, and generating profits, is a business model. All the parties involved in the business transaction have profit motives and benefit from the business model. A business model is designed and developed to fulfill all the participants’profit motives in the business transaction. Business models should be designed based on the basic quantitative businessmodel that states that revenue minus costs equals profits. This is because businesses are formed to generate long-termprofits or wealth for the owners of the company.

3. Why Business Model?

The primary goal of businesses is to make long-term profits by offering products or services that effectively target potential customers. In other words, businesses create products or deliver services to solve the customers' problems. Agood example is a restaurant providing services to solve problems of hunger or cravings and to provide a venue for satisfying dining experiences. Businesses are continually looking for creative and innovative ways to solve customers'issues and motivate them to buy products or utilize their services. Most of the time, businesses have to go beyond merely solving problems and offer innovative solutions that are considered exceptional value. The value is generated by creatively solving the customer's problem and satisfying the customer's cost objectives and profit motives. At the same time, the businesses' value must be profitable so that they can continue to provide the desired products and services to their customers and stay in business at the same time.

The business model shows how revenues are generated, profits are calculated, and costs are managed. There is a lot ofdiscussion in the business research community about the importance of this model in helping businesses to obtain competitive advantages in the marketplace by generating long-term profits. These discussions have not yet produced a simple approach that could use in understanding the revenue, cost, and profit relationship in the business development process. Small and medium-sized business owners and managers worldwide have difficulty understanding and implementing the business model successfully. Furthermore, the average investor also has difficulty understanding this particular business model before buying into a specific company. An understanding of the business model will help the businesses and investors in making profitable decisions.

4. Simplified Business Model

A simplified business model (qualitative or conceptual) can provide an explanation of the business process, whereas aquantitative business model can help to determine the performance of the company. The development of the simplified business model starts with three basic questions based on the quantitative business model: (1) How will revenues be generated? (2) How will the costs and expenses be managed? (3) How will profits be generated? The process for developing a business model is the same for small, medium, and large-sized businesses. The simplified framework presented for developing a business model in this article involves a three-step process. The profit motives of the participants in the business are considered in each step to ensure the business model's success. The profit motives in the model include monetary, psychological, and social profits.

4.1 Psychological Profits

Psychological profits are the benefits gained by the customer when using one company’s product or service over another’s. These benefits to customers come in the form of a reduction of stress, an improvement in self-esteem, or just a general experience of positive emotions. As an example, consider the following situation involving Uber. I wasstaying in a metropolitan city at a brand name five-star hotel on business. I have stayed at this hotel for the past two decades, and I have seen taxis in the parking lot almost all of the time. On one particular occasion, I had an early meeting on Saturday morning at 8:00 AM. I came down to the parking lot of the hotel and got into my car, but it wouldnot start. I immediately began looking for a taxi, but I did not see any at the hotel that morning. I asked the bell personto call a taxi for me, but I was informed that the taxi could take 25 minutes to get to the hotel. It was around 7:15 AM,and I was concerned that I would be late for the meeting. I was quite stressed out by this incident. All of sudden, Ubercame to my mind, likely because I had recently been discussing their business model with my MBA learners. I googledUber on my iPhone and downloaded the app. I entered my personal information, including my credit card number, andthe total process probably only took about two or three minutes. All of a sudden, I saw my pinned location on the screen and little cars moving nearby. I pushed the button to request the service, and I saw an Uber driver’s picture andthe car navigating toward my location, along with an approximate time of arrival. At the same time, however, the concerned bell person was putting in extra effort to find another taxi that could be at the hotel in 10 minutes. I was thankful to the bell person for trying to help with my situation, but I asked him to cancel the taxi because of the psychological profit of going with Uber instead. I could see the Uber car driving toward my location, and I did not seethe taxi that the bell person promised was on the way. My stress level immediately lowered, and I began to feel more positive emotions. This is a good example of the psychological profit motive from the perspective of the customers.

4.2 Social Profit Motives

As individuals, we are interested in personal and social profits because we are human beings who are concerned for ourselves and each other. We are also interested in social gains because they may eventually be of benefit to everyonein a given society. The social profits in relation to the business model are the benefits incurred by the community or the society due to the customer’s decision to use one company’s products or services over another’s because of the company’s commitment to delivering such social profits. The concern may involve the wellbeing of the people, the protection of the environment, or quite simply anything else that benefits the community, society, or the environmentin some way. Consider the following example as an illustration. I have visited China several times, and when I opened the curtains of the window one morning at my hotel in Beijing, it was very dark because of the smog. Whether I am living in Beijing or just visiting on business, as an individual I am concerned about the effects of the smog on society,and I will take action that will help in lowering the smog level, or in other words, that will generate social profits. As a result, if I needed local ground transportation service, I would select a company that is offering a ride share, electriccar, or hybrid car service because of my social profit motive.

5. How to Create a Business Model in Three Steps?

The framework presented in this article is designed to simplify the business model creation process by providing an analysis of an existing business process. The framework divides the process into three steps based on the three questions: (1) How will the revenues be generated? (2) How will the costs and expenses be managed? (3) How will the profits be generated? In the three-step framework, creativity and innovation are needed for the revenue generation,cost management, and profit generation processes. In this framework, all of the functions of a business, such as marketing, financial operations, operational management, human resources, and technology, are critical for the successof the business process.

The proposed model includes the profit motive of all the participants to generate sustainable growth for the business. A sustainable growth approach to building a business model encourages the companies to be socially responsible and concerned about all the stakeholders in the business and industry. The following chart shows the three-step involve in creating a Business Model for a digital company connecting passengers to a vehicle owner-operator.

Table 2. Three-step business model

	Creativity and Innovation		
1. **Revenues:** How would you generate revenues?	Identify the target customers and the problem that the company is planning to solve.	Identify the profit motives of the target customers.	Explain how the revenues will be generated.
	Provide transportation services to people who are traveling, do not own cars, do not drive, do not like to drive, or are looking for an alternative to rental cars or taxis.	Saving time and money, easy access, convenience, comfort, safety, and reduction of pollution while utilizing transportation services.	Matching users on demand with car owners interested in providing transportation services.
2. **Costs & Expenses:** How would you manage costs and expenses?	Identify the resources needed to solve the customers' problems.	Identify the profit motives of the participants needed to solve the customers' problems.	Explain how the costs and expenses will be managed.
	Car owner operators, on-demand matching service, pricing, and payment management systems.	Generate income, practice sound entrepreneurship, ensure safety, and provide the opportunity to generate income with existing assets.	Using the unused capacity of the car owner operators, efficient pricing, and payment management systems.
3. **Profits:** How would you generate profits?	Identify the relationship between revenues and costs/expenses.	Identify the profit motive of the company.	Explain how the profits will be generated.
	Fixed proportion of revenues, cost is a function of the market size, and expenses are based on volume.	To survive long-term and explore the potential growth opportunities for creating wealth in the future.	Sharing a fixed proportion of revenues, maintaining scalable fixed costs, and calculating expenses based on volume.
	□2015 Mohammed R. Ahmed		

In the above model, the assumption is that the start-up is interested in competing with the taxi service segment of the transportation industry by offering an alternative solution to customers. The following are the further explanation of three steps for creating the business model.

5.1 First Step Revenue Generation

The first step in the revenue generation process is to identify the target customers and the current solutions offered to the customers' problem. The target customers in this case are people who are traveling on public transportation, do notown cars, do not drive, do not like to drive, or are looking for an alternative to car rentals or taxis. The customer's solution is ground transportation of some sort. The second step is to identify the profit motive of the customers. The profit motives of the customers are saving time, lowering costs, easy access, convenience, comfort, safety, and reduction of environmental pollution. The third step involves explaining how the revenues are generated. The companywill generate revenues by matching users on demand with car owners interested in providing transportation services. This is the best alternative for generating revenues because of the minimal barriers for entering the market, a much lower investment compared to starting a taxi company, the millions of customers needing alternative transportation services, and the millions of car owners interested in offering alternative transportation services.

5.2 Second Step Cost Management

The first part of the cost management process involves identifying the resources needed for solving the customers' problem. The resources needed in this case are car owner operators, an on-demand matching service, appropriate pricing, and payment management systems. The second step is to identify the profit motives of the participants involvedin solving the problems. The owner operators' profit motives are to generate income, experience entrepreneurship, ensure safety, and generate income with existing assets. The third step is to explain how the cost will be managed. In this case, the company will use owner operators who have unused capacity to deliver the service, efficient pricing, easy payment systems, low operating costs, and an expense management system. The unused capacity is a loss to the car owners, and the profit motives for being a vehicle owner operator will help the company to attract more car owner operators, keeping the cost of the service low. This will be an effective cost management strategy for maintaining a lower fixed cost and offering competitive prices in the marketplace.

5.3 Thrid Step Profit Generation

The start of the profit generation process involves identifying the relationship between revenues, costs, and profits. The revenues are a fixed proportion of revenues generated by the car owner operators. The cost is a function of the market size, and expenses are based on the volume. The second step is to identify the profit motive of the business. The profit motive of the company is to break-even and survive long enough to prove to investors that the business model is working, and that there is potential for future profits and growth. The third step is to explain how the profits are generated. In this case, the company will share a fixed proportion of the revenues from the owner operators, maintaining scalable fixed costs and managing expenses based on volume. The scalable fixed costs and expenses basedon volume will be kept down and increase the profit margin. This will allow the company to expand globally with minimum investment with or without breaking even first.

6. Conclusion

In conclusion, the process involved in generating profits for a business is best understood by creating a simplified business model. The creation of a profitable business model involves an understanding of the customers' problems, the ability to develop creative and innovative solutions, the acquisition of the required resources, and an understandingof the profit motives of the customers, suppliers, and businesses. Once the business model is created for the company,all of the functional strategies are formulated using the business model as a guide and implemented to make the business process successful in the marketplace.

For example, marketing strategies are used for creating shared value, pricing, advertising, promotion, and branding. Financial and accounting strategies are used to manage and control costs and expenses. Operational strategies are used for producing and delivering quality products and services. Human resource strategies are used for training, motivating, and offering fair compensation for employees.

Technology is used in all of the functional areas, including marketing, finance, operations, and human resource management, to create a competitive advantage in the marketplace. It is important to realize that the business model is not a static model; it is a dynamic model. Management has to monitor the changes in the profit motives of the participants in addition to the environment surrounding the business in order to effectively adjust the business model for continued success in the marketplace.

Successful companies such as Apple, Google, Uber, and Facebook are good examples of how an effective business model incorporates the profit motives of the participants of the business. The three-step framework will be helpful for creating a business model, analyzing an existing model, or in formulating a particular business strategy. Furthermore, the framework is practical because the performance of the model could be easily measured using the more complex quantitative business model.

References

Afuah, A. (2004). *Business models e a strategic management approach*. Mc Graw Hill Irwin, New York.

Bellman, R., Clark, C. E., Malcolm, D. G., Craft, C. J., & Ricciardi, F. M. (1957). On the construction of a multi-stage,multi-person business game. *Operations Research, 5*(4), 469-503. https://doi.org/10.1287/opre.5.4.469

Chesbrough, H. (2006). *Open business models*. Harvard Business Review Press, Massachusetts.

Chesbrough, H., & Rosenbloom, R. S. (2002). The role of the business model in capturing value from innovation: evidence from xerox corporation's technology spin-off companies. *Industrial and Corporate*

Change, 11(3), 529-555. https://doi.org/10.1093/icc/11.3.529

Hamel, G. (2000). *Leading the revolutio*n. Boston, Mass.: Harvard Business School Press.

Change, 11(3), 529-555. https://doi.org/10.1093/icc/11.3.529

Hamel, G. (2000). *Leading the revolutio*n. Boston, Mass.: Harvard Business School Press.

Johnson, M. W., Christensen, C. M., & Kagermann, H. (2008). Reinventing your business model. *Harvard Business Review, 86*(12), 50-59.

Magretta, J. (2002). Why business models matter. *Harvard Business Review, 80*(5), 86-92.

Osterwalder, A., Pigneur, Y., & Tucci, C. (2005). Clarifying business models: origins, present, and future of the concept. *Communications of the Association for Information Systems, 16,* 1-25. https://doi.org/10.17705/1CAIS.01601

Teece, D. J. (2010). Business models, business strategy and innovation. *Long Range Planning*, *43*(2-3), 172-194. https://doi.org/10.1016/j.lrp.2009.07.003

U.S. Small Business Adminstration. (2020). *Office of adocacy*. Retrieved from http://advocacy.sba.gov

Zott, C., & Amit, R. (2010). Business model design: an activity system perspective. *Long Range Planning, 43*(2-3), 216-226. https://doi.org/10.1016/j.lrp.2009.07.004

***

21

Human resource management models: aspects of knowledgemanagement and corporate social responsibility

Bipul Kumar

ABSTRACT

Over time, changes have affected not only the attitude towards people employed in organizations and the knowledge and intellectual capital, but also social values and responsibility. The aim of the paper is to analyse and assess the aspects of knowledge management and corporate social responsibility and their development in different human resource management (HRM) models. While researching the issue of HRM impact on the organizational performance, the authors have analysed several HRM models that show the relationship between HRM practices, the factors influencing their choice, and the organizational outcomes. The models differ with the unitary approach, which believes that employees and employers share the same interests, or with the pluralistic approach, which admits that different groups may have different interests.

1. Introduction

The 20th century was defined as a century of the industrial society, the end of the 20th century as a century of the information society, and the early 21st century has become a century of the knowledge society, where knowledge isa significant resource of manufacturing and an essential factor of individual well-being. One of the components of the knowledge society is the knowledge economy (KE).

The knowledge economy has become the nation's main agenda and focus in the 21st century. The time is right forsuch a shift by injecting a catalyst such as knowledge and advances in technology into all sectors of the economy. The world has changed: Exploiting the K-economy within the globalized trade environment has become the current focus of attention for many countries, which aspire to remain competitive. Change in employment: Employment in the knowledge economy is characterized by increasing demand for more highly skilled workers who are also enjoying wage premiums (Ishak, Eze, & Ling, 2010).

The aim of the paper is to analyze and assess the aspects of knowledge management (KM) and corporate social responsibility (CSR), and their development in different human resource management (HRM) models.

Popularity of knowledge management has increased rapidly, especially after 1996, and it has become a central topic of management philosophy and a management tool. Scarborough and Swan (2001) argue that the rise and growth of KM is one of the managerial responses to the empirical trends associated with globalization and post industrialism. These trends include the growth of knowledge worker occupations, and technological advances created by information and communication technology (ICT). In organizational terms, they argue, this new era is characterized by flatter structures, de-bureaucratisation and "virtual" or networked organizational forms.

Little, Quintas and Ray (2002) go as far as to trace the origin of knowledge management to changes in HRM practices. One of the key factors in the growth of interest in knowledge management in the 1990s was therediscovery that employees have skills and knowledge that are not available to the organization. It is perhaps no coincidence that this rediscovery of the central importance of people as possessors of knowledge vital to the organization followed an intense period of corporate downsizing, outsourcing and staff redundancies in the West in the 1980s.

Kluge, Wolfram and Licht (2001) argue that the value of knowledge tends to perish quickly over time and that companies need to speed up innovation and enhance creativity and learning. Finally, Daft (2001) stresses the shift in the environment and markets of organizations. Ever more organizations have been transformed recently due to the shift from stable to unstable environments.

Mr. Bipul Kumar is Asst. Prof. Global Institute of Management, Bhubaneswar

Accordingly, the uncertainty of the business has escalated, with more external elements to consider and frequent, unpredictable changes. A growing number of organizations have adopted team working, organic structures and knowledge-centric cultures as a consequence. For many countries, the degree of knowledge application is becominga key measure of human capital and industry. The New Economy is moving beyond bulk material manufacturing to designing new technologies, beyond processing physical resources to processing knowledge, beyond applying raw energy to applying ideas (Lang, 2001). In view of the above developments, it is now accepted that the productive economic core is being relocated from land, labor, capital and machinery to intellectual resources, which emphasize information, knowledge and technology. It is commonly observed that organization designs and managerial practices are becoming more differentiated, less bureaucratic, less reliant on hierarchical authority structures and more psychosocially integrative.

The organizational structure in the knowledge economy is more flexible and leaner as the business direction is now focusing more on the upstream activities, which demand knowledge workers who are skilled in the application of knowledge and the use of information and communication technology (Ishak, Eze, & Ling, 2010). The increasing knowledge-based nature of competition is driving changes in how value chains are managed across companies. It also signals a demographic shift in the workforce to knowledge work, whose mobile exponents demand a different type of work environment and executive leadership.

2. Knowledge management

In the new economy of the new millennium, knowledge has emerged as an asset to be valued, developed and managed. Several authors argue that knowledge has become a direct competitive advantage for companies, or that it is certainly the best resource and the only sustainable competitive advantage (Armstrong, 2006; Ishak, Eze, & Ling, 2010; Sumi, 2011; Ulrich, 1998).

Knowledge is defined as the ability to sustain the coordinated deployment of assets and capabilities in a way that helps the firm achieve its goals (Soliman, 2000). To the organization, knowledge is defined as what people know about customers, products, processes, mistakes and success (Bollinger & Smith, 2001; Ishak, Eze, & Ling, 2010).

There is no agreed definition of knowledge management, even among practitioners. One reason for this lack of agreement stems from the fact that people working in the KM field come from a wide range of disciplines, such as psychology, management science, organizational science, sociology, strategy, production engineering and so on. Most definitions are, however, similar on one point as they take a very practical approach to knowledge, i.e., how knowledge can contribute to organizational effectiveness (Hlupic, Poulodi, & Rzevski, 2002).

On the basis of the analysis of the publications of several authors, (Chivu & Popescu, 2008; Laurie, 1997; Sumi, 2011), the authors of this paper have created a schematic summary of the definitions of KM, see Fig. 1.

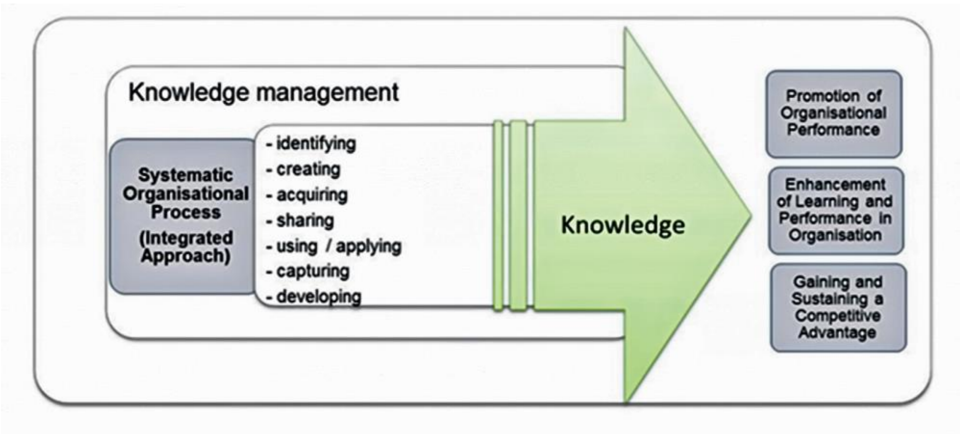


Fig. 1. Concept of knowledge management

KM deals as much with people and how they acquire exchange and disseminate knowledge, as with information technology. That is why it has become an important area for HR practitioners, who are in a strong position to exert influence in this aspect of people management (Armstrong, 2006). KM is about getting knowledge from those who have it to those who need it in order to improve organizational effectiveness. In the information age, knowledge rather than physical assets or financial resources is the key to competitiveness.
Scarborough and Carter (2000) describe KM as 'the attempt by management to actively create, communicate and exploit knowledge as a resource for the organization'. According to them the components of KM are as follows:

- In technical terms KM involves centralizing knowledge that is currently scattered across the organization andcodifying tacit forms of knowledge
- In social and political terms, KM involves collectivizing knowledge so that it is no longer the exclusive propertyof individuals or groups
- In economic terms, KM is a response by organizations to the need to intensify their creation and exploitation ofknowledge

According to Sumi (2011), "KM is a managerial philosophy, which is perceivable in the practices of different organizations. Utilizing KM, better performance can be achieved by interaction between individuals or groups. Moreover, to be efficient, KM requires storage for information and knowledge, which is open to organization member for searching critical information, knowledge or the best practices. Thus KM is the learned method for knowledge sharing and interaction and furthermore, KM clarifies which way to operate. KM should be consideredan organizational process, which is used to achieve better performance due to effective knowledge sharing and organizational learning, recognizing and developing competencies, and gaining from individually different skills andknowledge."
If HRM is about managing people effectively, and, if people's most valuable resource is knowledge, then HRM and KM are closely interrelated (Svetic & Stavrou-Costea, 2007).
The authors suggest that KM plays a crucial role in HRM of the company and building of the HRM model for thecompany, which will be described in part 4.

3. Corporate Social Responsibility

Under purely competitive conditions, prevailing in the world in the 21st century, an essential condition for the development of the organization is the acquisition and retention of its competitive advantage. Over the past years, the company can gain some competitive advantage through corporate social responsibility strategy. The CSR has a long history, which evolved with the development of business and that has been meeting the emerging needs of the society. Over time, this concept has changed.
The modern era of CSR awareness started in the fifties of the 20th century. Initially, the corporate social responsibility was understood as considering the needs and interests of people who may be affected by business actions of an enterprise. Bowen (1953) set forth an initial definition of the social responsibilities of businessmen: "It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society." Davis and Blomstrom (1966) defined social responsibility in the following way: "Social responsibility, therefore, refers to a person's obligation to consider the effects of his decisions and actions on the whole social system. In so doing, they look beyond their firm's narrow economic and technical interests."
In the eighties of the 20th century, Carroll (1979) extended the concept of CSR, including four categories: economic, legal, ethical and discretionary responsibility. In the nineties, Carroll linked the stakeholder concept of Freeman (1984) with the CSR concept. The stakeholder concept personalizes social responsibilities by delineating the specific groups or persons, business should consider in its CSR orientation and activities (Carroll, 1999). Hopkins (1998) defines that CSR is concerned with treating the stakeholders (both within a firm and outside) of the firm ethically or in a socially responsible manner. At the end of the 20th century, environmental responsibility was included into CSR. Elkington introduced his famous concept Triple Bottom Line focuses on three issues, namely, social responsibility

(people), environmental responsibility (planet) and economic responsibility (profit). So, a socially responsible company can be considered as an institution for economic prosperity, social equity and environment protection. What is good for the environment and what is good for the society is also good for the financial performance of the business (Rahmann, 2011).
The definition presented by the European Commission (2001) puts forward a new understanding of CSR in the 21st century. CSR is a concept, whereby companies on a voluntary basis integrate social and environmental concerns in their business operations and in their interaction with their stakeholders. Being socially responsible means not only meeting the legal requirements, but also investing "more" in human capital, environmental issues and relations with stakeholders. Thus CSR of the 21st century is based on social, environmental and economic responsibility.
There is no one approach to CSR that fits all companies. Different companies may use different original approaches. For the development and implementation of social responsibility strategy to ensure successful and sustainable operation of the company, first of all, it is necessary to identify the key organizational stakeholders. The next step is to build quality relationships with the stakeholders, namely, to identify each stakeholder's interests and needs, as well as the associated challenges and choose the most suitable strategy of cooperation with each of the parties involved. Such a strategy and subsequent activities will ensure the loyalty of the parties and the effective operation of the company, which, in turn, will contribute to business sustainability and competitiveness.
The implementation of socially responsible business principles depends on management expectations. However, the CSR program implementers are the people employed by the company, namely, its staff and human resources. Therefore, HRM as one of the components of management should play a significant role in the implementation ofthe CSR policy.
From the outset, personnel management (the original version of HRM) was related to the concept of corporate responsibility. In the second half of the 19th century, when the organizations developed, and the employee dissatisfaction grew, there was a need for professionals who deal with conflicts and sort out the relationship betweenmanagement and employees. Personnel Management dates back to England, where in 1879 a new position of welfare officer appeared. The staff took care of the lowest levels of well-being of workers and acted as a buffer between the business and its employees, between management and workers. In America, social welfare secretaries or social secretaries were the employees who administered the workers' welfare programmes. (Price, 2007)
In order to assess the significance of various HR practices in the company’s socially responsible strategy implementation, the authors used Analytic Hierarchy Process (AHP) method developed by Thomas L. Saaty (1980).
According to the AHP methodology, the authors offer three criteria for comparison: “Development of environment”, “Development of relationships with stakeholders” and “Business ethics”.
Data analysis shows that the most important is such a criteria as “Development of Environment”, the second important criteria is “Developing relationships with stakeholders” and the least important criteria in this case is “Business Ethics”. As a result it is clear that the first most important HRM practices are those from the “soft” HRM approach – managing the “Work environment, safety and health”, “Rewards” and “Compensating employees” (Lapiņa, Maurāne, & Stariņeca, 2013).
Nowadays, it is clear that aspects of CSR are increasingly affecting HRM and business operations strategy, as a whole, so it is significant to understand and estimate, what HRM model is suitable for modern business and how it fits into the knowledge management aspects.

4. Incorporation of KM and CSR in company human resource management models

Over time, both the attitude towards the people engaged in the organization and the concepts, which are used to describe these people, have changed. Originally, organizations considered the people employed a labor resource, with a focus on the human ability to perform certain functions and tasks. With regard to the implementation of the scientific advances and new technologies, the nature of labor has changed: workers needed a higher level of education, different skills and abilities. Willingness of employees to participate in decision-making increased. In the eighties of the 20th century, a new concept – Human Resources Management was introduced in USA by adopting the total quality management principles from Japan, recognizing that the organization's employees, namely, human resources, are a significant resource and by combining the scientific management approach, the human relations school and the

principles of strategic management.
From an organizational perspective, HR encompasses the people in an organization – its employees and the human potential available to a business (Price, 2011).
In literature, various perceptions of HRM are found, leading to a wide variety of HRM definitions. Some authors support the unitary approach to HRM, when employers and employees are viewed as having common interests and the key function of HRM is how people can best be managed in the interests of the organization.
HRM is defined as a strategic and coherent approach to the management of an organization's most valued assets – the people (or human talent) working there who individually and collectively contribute to the achievement of its objectives (Armstrong, 2006; Mathis & Jackson, 2008; Snell & Bohlander, 2011).
Other authors use the more realistic pluralist view, which says that all organizations contain a number of interest groups and the interests of employers and employees do not necessarily coincide. HRM is the attraction, selection, retention, development and use of human resources in order to achieve both individual and organizational objectives. The yardstick of human resource outcomes is not just economic rationality – a stakeholder perspective is required, i.e., develop and maintain sustainable relationships with all the relevant stakeholders, not just customers and shareholders (Paauwe, 2004; Price, 2007).
Investigating the issue of the impact of HRM on organizational performance, HRM has developed a number of models that show the relationship between HRM practices, the factors influencing the choice, and the organization outcomes.
We can identify two broad approaches of HRM: "hard" and "soft" approach. Under the "hard" approach, employees are considered one of the organization's resources and thus be managed in the same way as any other resource in the organization. This approach measures the HRM effectiveness by monetary criteria: cost accounting, utility analysis, economic value added, and return on investment of HR activities (Kane, Crawford, & Grant, 1999).
Some companies develop sophisticated models, of how HR practices affect satisfaction of customers, or identify investors as the most important stakeholders, without whose capital it would be impossible to continue business and reach satisfaction (Schuler & Jackson, 2005).

The "soft" approach acknowledges the importance of taking into consideration multiple stakeholder interests. According to this approach, employees are an important group of stakeholders and a distinct resource that cannot be managed as any other resource and whose interests and needs have to be taken into account (Price, 2007). A more complete evaluation of the effectiveness of HRM involves the satisfaction of the concerns of multiple stakeholder groups. Therefore, soft indicators are also used, such as commitment, satisfaction, engagement, knowledge development, etc. (Schuler & Jackson 2005). "Soft" approach is in tune with the concept of CSR, which provides satisfaction of all stakeholders of the organization, not just the owner/investor interests.
Traditionally, HRM models are based on Dyer and Reeves (1995) categorization of outcomes, which provides:

- Proximal outcomes – HR outcomes
- More distal outcomes – organizational, financial and market based

CSR approach extends the range of HRM outcomes including the social outcomes – individual and social wellbeing.

Comparison of the HRM models made by authors (see Table 1), shows that some models represent the traditional approach, but Harvard, Jackson and Schuler models represent the CSR approach, i.e., the satisfaction of the interests of different stakeholders.
Recent studies highlight and show the linkage between HRM and KM. Traditional HRM functioned under narrow operational boundaries; in the knowledge economy the role of HRM needs to expand, looking both within and outside the organization. The traditional focus on managing people has been broadened to managing organizational capabilities, managing relationships and managing learning and knowledge (Lengnick-Hall & Lengnick-Hall, 2003). There are several roles that can be played by HR in developing knowledge management system. Lengnick-Hall and Lengnick-Hall (2003) take the view

that in the knowledge economy organizations will need HRM that is characterized by a new set of roles that can assist in generating and sustaining organizational capabilities. These new HRM roles are those of human capital steward, knowledge facilitator, relationship builder and rapid deployment specialist.
The investigations conducted by the Center of Management Studies of Leon Kozminski Academy of Entrepreneurship and Management in Warsaw in 2003–2005 were directed at the identification of relations between knowledge management and human resources management at the enterprise (Staniewski, 2008). The most commonly emerging factors of human resources management supporting the development of knowledge management are as follows:

- Organizational culture
- Qualifications of the staff
- Qualification of the employees
- Motivation of the staff and employees

The results of the investigation demonstrate that the strongest factor supporting the activities related to the applications of the knowledge management initiatives are qualifications (both of management staff and employees) and the organizational culture. The motivation of management staff and employees were less effectively supporting. (Staniewski, 2008)
Sumi KM model shows (see Fig. 2) support for the implementation of HRM activities, such as, training and development, performance management system, compensation, selection and pay-roll administration, providing feedback, communication and flow of information. This support will contribute to the organization's objectives (Sumi, 2011).

Fig. 2. Facilitation of HR practices by KM (Sumi, 2011)

Davoudi and Kaur (2012) show the research model which involved the mutual linkage between KM and HRM and also their relationship with organizational performance. The role of HRM in KM is as follows:

- Without effective HR effective knowledge system cannot be implemented;
- HRM contributes to better implementation of KM in the organizations.

HR plays a critical role in knowledge creation, retention, sharing and innovation inside the organizations. The influence of KM on HRM: owners of the organizations attempt to facilitate the implementation of HR practices by applying information technology and KM in their organizations. KM provides a medium in which human resource managers will perform HR programmes and HR practices in a better way and with higher quality (Davoudi & Kaur 2012). Previous studies have shown that appropriate HR practices influence organizational performance positively. Similarly, some studies argued about the positive influence of knowledge management on organizational outcomes. Davoudi and Kaur (2012) describe the integration of KM and HRM, which gives a synergistic effect. Integrating HRM with KM in the organization leads to organizational superior performance, efficiency, effectiveness, productivity and survival in today’s competitive advantages which can be named as the ultimate goals of all organizations.
Having analyzed the HRM models described above, the authors created a model (see Fig. 3) and came

to the conclusion that the corporate social responsibility, HRM model should ensure achieving the organizational and employee's individual goals, taking into account the organization's impact on the external and internal environments.

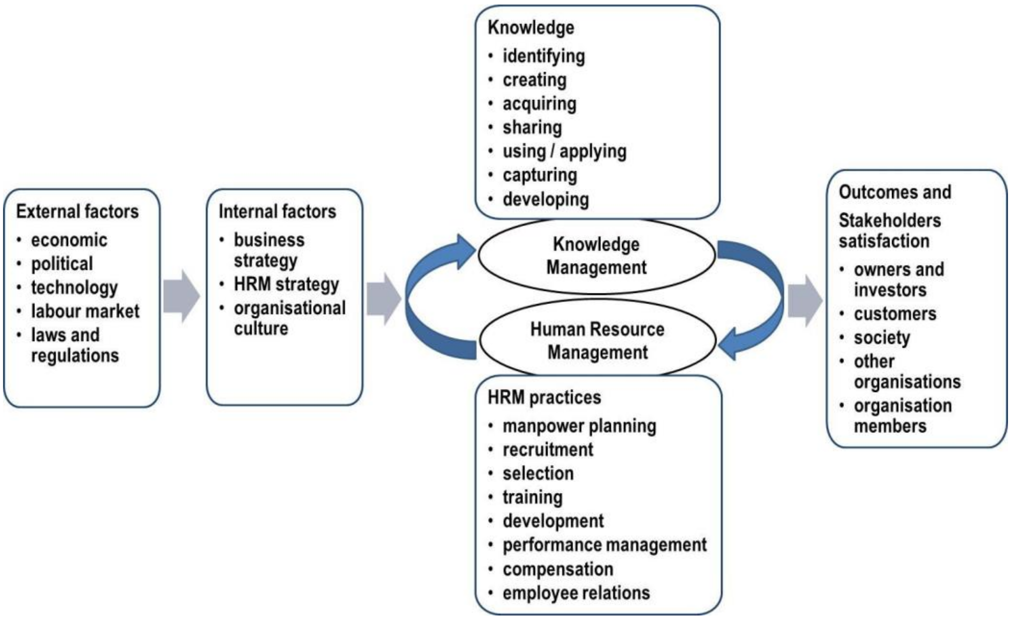


Fig. 3. Knowledge and human resource management model towards corporate social responsibility

Social responsibility and knowledge management should be the foundation for the sustainable company culture. Companies operating in a socially responsible manner may have a different understanding of human resources and apply different HRM models. To be most effective, the companies should be able to adapt to different circumstances and changes in the external and internal environments and should consider the change and the knowledge management, thereby creating the HRM model best suited to any situation and environment.

5. Conclusion

Changes in the present industrial scenario have contributed to changes in the structure and functioning of the organizations. Organizations have been focusing on changes in the structure resulting in flatter organizations. The results of various studies show that large organizations have changed their shapes dramatically, reducing layers of hierarchy, dispersing authority and decision making, and adopting a variety of practices associated with knowledge sharing, quality improvement and information technology. Further, it is inferred that organizational change is the basis of competitive advantage for organizations.

In the modern global economy, the increasingly rapid flow of information, and the growing recognition of the significance of intellectual capital, knowledge is increasingly claimed to be a critical resource of competitive advantage for organizations. Thus, the idea of knowledge management (KM) has enjoyed widespread popularity in today's studies. Moreover, the rise of the knowledge economy has seen the proliferation of information and communication technologies, coupled with greater organizational complexity, the growth of virtual and global organizations and rapid change. This, in turn, requires drastic change within human resource management (HRM) to respond to the changing demands of the knowledge economy (Chivu & Popescu, 2008).

When implementing a new culture, managers may face many challenges in the management processes. It requires changes and, first of all, changes in the old management systems. Companies should think about, how to manage the company based on the HRM. In socially responsible companies the role of human resources becomes significant, thus the companies should also extend the human resource management approach.

Modeling can be applied to help companies cover several specific aspects. Modeling is essentially a system image, which shows how, by whom and in what direction to take steps in order to achieve the desired result. In human resources management, modeling is particularly important. Companies can apply modeling to develop new more efficient and more effective ways of working. The company, which builds for itself a proper human resource management system, gains competitive advantage. Such company can be socially responsible and develop its activities to the value that would be helpful and mutually beneficial to both the company and its stakeholders.

In order to gain a competitive edge and maintain competitive advantage, organizations use new business management strategies and HRM models that create a new culture in the organization and include both knowledge management and social responsibility aspects. Knowledge management and culture of social responsibility changes the organization's thinking, perception and allows the organization to operate on a new level.

References

Armstrong, M. (2006). *A Handbook of Human Resource Management Practice* (10th ed.). London/Philadelphia: Kogan Page. 982 p. Armstrong, M. (2009). *Armstrong's Handbook of Human Resource Management* Practice (11th ed.). London/Philadelphia: Kogan Page. 1088 p.

Becker, B. E., Huselid, M. A., Pickus, P. S., & Spratt, M. F. (1997). HR as a source of shareholder value: research and recommendations. *Human Resource Management*, *36*, 39–47. http://dx.doi.org/10.1002/(SICI)1099-050X(199721)36:1<39::AID-HRM8>3.0.CO;2-X

Beer, M., Spector B., Lawrence, P. R., Mills, D. Q., & Walton, R. E. (1984). *Managing Human Assets*. New York: The Free Press. 209 p. Bollinger, A. S., & Smith, R. D. (2001). Managing organizational knowledge as a strategic asset. *Journal of Knowledge Management*, *5*, 8–18. http://dx.doi.org/10.1108/13673270110384365

Bowen, H. R. (1953). Social responsibilities of the businessman. New York: Harper & Row. 276 p.

Carroll, A. B. (1979). A Three-Dimensional Conceptual Model of Corporate Performance. *Academy of Management Review*, *4*, 497–505.

Carroll, A. B. (1999). Corporate Social Responsibility, Evaluation of the Definitional Construct. *Business & Society*, *38*, 268–295. http://dx.doi.org/10.1177/000765039903800303

Chivu, I., & Pospescu, D. (2008). Human Resource Management in the Knowledge Management. *Revista Informatica Economica*, 48, 54–60. Daft, R. F. (2001). Organization Theory and Design (7th ed.). Cincinnati: South-Western College Publishing. 700 p.

Davis, K., & Blomstrom, R. L. (1966). Business and its environment. New York: McGraw-Hill. 403 p.

Davoudi, S. M. M., & Kaur, R. (2012). The Mutual Linkage between Human Resource Management and Knowledge Management. *Arth Prabhand: A Journal of Economics and Management*, *1*, 13–29.

Dyer, L., & Reeves, T. (1995). Human resource strategies and firm performance: what do we know, where do we need to go? *International Journal of Human Resource Management*, *6*, 656–670. http://dx.doi.org/10.1080/09585199500000041

European Commission Directorate-General for Employment and Social Affairs (2001). Promoting a European framework for corporate social responsibility. Green Paper. [Online], EC, http://eur-lex.europa.eu/LexUriServ/site/en/com/2001/com2001_0366en01.pdf.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman. 276 p.

Guest, D. E. (1997). Human resource management and performance: a review and research agenda. *The International Journal of Human Resource Management*, *8*, 263–276. http://dx.doi.org/10.1080/095851997341630

Hlupic, V., Poulodi, A., & Rzevski, G. (2002). Towards an Integrated Approach to Knowledge Management: "Hard", "Soft" and "Abstract" Issues. *Knowledge and Process Management*, *9*, 90–102. http://dx.doi.org/10.1002/kpm.134

Hopkins, M. (1998). The Planetary Bargain: Corporate Social Responsibility Comes of Age. London: Macmillan. 247 p.

Ishak, N. B., Eze, U. C., & Ling, L. S. (2010). Integrating Knowledge Management and Human Resource Management for Sustainable Performance. *Journal of Organizational Knowledge Management*, *2010*, 1–13. http://dx.doi.org/10.5171/2010.322246

Jackson, S. E., Schuler, R. S.&Werner,S. (2009). *Managing Human Resources* (11th ed.). New York: South-Western, Cengage Learning. 668 p.
Kane, B., Crawford, D., & Grant, D. (1999). Barriers to effective HRM. *International Journal of Manpower, 20,* 494–515. http://dx.doi.org/10.1108/01437729910302705
Kluge, J., Wolfram, S., & Licht, T. (2001). Knowledge Unplugged. The McKinsey&Company global survey on knowledge management.
Palgrave: Houndsmills. 25 p. http://dx.doi.org/10.1057/9780333977057
Lang, J. C. (2001). Managing in knowledgebase competition. *Journal of Organizational Change Management*, *14,* 539–553. http://dx.doi.org/10.1108/EUM0000000006145
Lapiņa I., Maurāne G., & Stariņeca O. (2013), Holistic Human Resource Management Model towards Sustainable and Sophisticated Business.
Proceedings the 17th World Multi-Conference on Systemics, Cybernetics and Informatics. Orlando, Florida, July 9–12 2013, 31–36.
Laurie, J. (1997). Harnessing the power of intellectual capital. *Training and Development*, 27, 66–77.
Lengnick - Hall, M., & Lengnick-Hall, C. (2003). H*uman Resource Management in the Knowledge Economy: New Challenges, New Roles, New capabilities*. San Francisco: Berrett-Koehler Publishers. 204 p.
Little, S., Quintas, P., & Ray, T. (2002). Managing Knowledge: An Essential Reader. London: The Open University in association with Sage Publications. 357 p.
Mathis, R. L., & Jackson, J. H. (2008). *Human Resource management* (12th ed.). South-Western: Thomson. 592 p.
Paauwe, J. (2004). *HRM and performance: Achieving long term viability*. Oxford: Oxford University Press. 270 p. http://dx.doi.org/10.1093/acprof:oso/9780199273904.001.0001
Paul, A. K., & Anantharam R. N. (2003). Impact of people management practices on organisational performance: analysis of a casual mode.
International Journal of Human Resource Management, *14*, 1246–1266. http://dx.doi.org/10.1080/0958519032000145648 Price, A. (2007). *Human Resource Management in a Business Context*.(3rd ed.) London: Thomson Learning. 648 p.
Price, A. (2011). *Human Resource Management* (4th ed.). South-Western: Cengage Learning EMEA. 587 p.
Rahmann, S. (2011). Evaluation of Definitions: Ten Dimensions of Corporate Social Responsibility. *World Review of Business Research*, *1*, 166– 176.
Saaty T.L. (1980). The Analytic Hierarchy Process: Planning priority setting, New York: McGraw-Hill. 287 p.
Scarborough, H., & Swan, J. (2001). Explaining the diffusion of knowledge management: The role of fashion. *British Journal of Management*, *12*, 3–12. http://dx.doi.org/10.1111/1467-8551.00182
Scarborough, H.,& Carter,C. (2000) *Investigating Knowledge Management*, CIPD, London. 81 p.
Schuler, R. S., & Jackson, S. E. (2005). A Quarter – Century Review of Human Resource Management in the U.S.: The Growth in Importance of the International Perspective. *Management Review*, *16*, 1-25.
Snell, S., & Bohlander, G. (2011). *Managing Human resources* (16th ed.). New York: South-Western, Cengage Learning. 832 p.
Soliman, F. (2000). Application of knowledge management for hazard analysis in the Australian dairy industry. *Journal of Knowledge Management*, *4*, 287–294. http://dx.doi.org/10.1108/13673270010379830
Staniewski, M.W. (2008). The elements of Human Resources Management supporting knowledge management, *Amfiteatru Economic*, *Special*, *Noiembrie*, 283–291.
Sumi, J. (2011). Human Resource Management and Knowledge Management: Revisiting Challenges of Integration. *International Journal of Management & Business studies. 1,* 56–60.
Svetlik, I., & Stavrou-Costea, E. (2007). Connecting human resources management and knowledge management. *International Journal of Manpower, 28,* 197–206. http://dx.doi.org/10.1108/01437720710755209
Ulrich, D. (1998). A new mandate for human resources. *Harvard Business Review*, *January-February*, 124–134.

***

ABOUT THE EDITORS

Prof. (Dr.) S.K. Moharana

Dr. Moharana is an acclaimed expert in the field of Management. He is successfully organised and offered Consultancy, Training and MDPs to various State Government departments including SBI Staff Training Institute and LIC of India. To his veritable credit, he has published over 40 article in leading journals and instrumental in presenting papers at various National Conferences at Malaysia and Bangkok. As a Professional Member of All India Management Association (AIMA) and Indian Society for Training and Development (ISTD), New Delh, he leads the life of significance in serving in serving others.

He has received the rate and distinct accomplishment of Leadership Development Award from the Lions Club International President Mr. William S. Hounder (USA) for his yeoman services as the Chairman, Educational Services of Lions District 322C2 for three convective years .

His specialization and subject interest areas are HRM, Strategics Management, Entrepreneurship Development and TQM.

Dr. Munmun Mohanty, MBA, Ph.D.

Dr. Munmun Mohanty holds MBA degree with dual specialisation in Finance and Marketing. She has received her Ph. D. (Business Administration) on "Impact of Liberalisation on Stock Market Efficiency in India" from Utkal University. She is an exceptionally proficient and experienced Finance teacher with over 22 years of teaching and academic record. She is highly skilled at explaining a variety of complex financial theories and practices at a level that can be understood by professional and non-profesional audiences. She conducts training programmes for corporates to train non-finance executives. She is well acclaimed for her stints in teaching and training at various institutions of State importance such as Ravenshaw University, SOA University and Xavier Institute of Management, Bhubaneswar.

Dr. Mohanty has published more than 30 research papers in national and international journals of repute, and is the editor of two books. Her research interest is in Capital Market Effiiciency, Asset Pricing and Investor Behaviour.