

## **VALUE BUSINESS MODEL FOR FUTURE: A COMPLEX ORGANIZATION TO A SIMPLE ORGANIZATION.**

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### **Abstract**

The new business model to be needed to operate in the speed internet environment and the value network is a new concept to develop the useful for value business model. Organizations and business webs or networks behave as complex adaptive systems. Yet, many business modeling techniques fail to incorporate systems thinking or address the role of knowledge and intangibles in creating value. Reframing enterprises as value networks can reveal both tangible and intangible value creating activities. Value networks are webs of relationships that generate tangible and intangible value through complex dynamic exchanges between two or more individuals, groups, or organizations. As the new concept, the value business model in use of value network has been a leading concept in the world. The research results of the value business model in the theoretical is referenced to put forward the concept model of rebuilding the value business model on the value network in the network trading environment, and increase the consumer value by transforming a complex organization system to a simple organization system in future.

**Keywords:** Value Business Model, Value Chain, Value Network, Complex Organization, Simple Organization.

### **Introduction**

The environment of the enterprise operation mode has changed profoundly, which makes enterprise to face a new consumer environment factor and new operation platform factor for the market trading and the organization relationship, as the consumer trading mode is turning from the traditional shop trading to the network trading, with the networking and digitalized operation platform among enterprises, and this new environmental factor makes the operation mode of enterprise have large limitation, and the effective operation of the enterprise model to be needed to encountering the challenges. The first-generation Internet realized the link of computer hardware and induced the first Internet tide, and the second-generation Internet Web realized the link of web pages and induced the second Internet tide, so the third-generation Internet Grid could realize the comprehensive link of all resources on the Internet and induce the third Internet tide, and its direct result was that the realization of the business changing with the demands, which would further induce the profound change of the network trading environment.

The network usage of the world continually increase and the total size of internet user had achieved 2095 million in 2011, increasing growth rate by 480.4% comparing with 2000. Internet use of the people of China continually also increase, and the total size of network people had achieved 477 million, increasing more than 75 million comparing with the number in the late of 2010. And the popularity rate of Internet has ascended to 34.3%, an increase of 5.4% comparing with the number in the late of 2010. The network people of China had exceeded than US in the June of 2008, ranking the first in the world, the internet polarizing rate of China has exceeded the global average level. In the end of 2011 the Commercial application users kept highest increase. The year 2010 has witnessed a rapid development of online payment. The amount of users for online payment had reached 137 million. The size of network shopping user had achieved 0.142 billion and the use rate had been increased to 33.8%, an increase of 5.7%. The annual increase of online shopping users was 48.6%, with the quickest increase speed; the utilization rates of online payment and e-banking applications rapidly increased. More economic activities have been involved in the times of internet. The quick growth of the network shopping user size shows the powerful development tendency of the electrical commercial market of China. The network trading is being popularized, and the environment of network trading is being formed. At the same time, the quick development of Internet technology further strengthens the change of the environment.

The main research questions to be: How is Value Business Model defined? What are the basic ideas of competitiveness models? How do the models explain and describe competitiveness of a business? The final outcome of the paper is a proposal concerning elements to take into account when building competitiveness model for value business. This paper describes a way of modelling business relationships that incorporates new thinking around knowledge and intangibles, value networks and organizational complexity. The methodology is based on a literature review of three theories that describe models of competitive advantage in contemporary business.

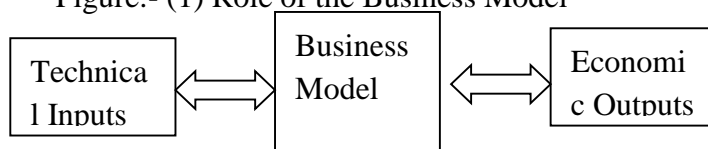
### **Literature of Business Models**

According to Zott et al. (2011), the business model-the conceptual base is still thin, but they review of the literature suggests two ways to advance the study of business models. First, employing more precise concepts would allow other researchers to better understand what the business model in the respective study is meant to denote. Furthermore they suggest that at least three concepts that might warrant distinct consideration: (1) e-business model archetypes, (2) business model as activity system, and (3) business model as cost/revenue architecture. These distinct concepts could all be fruitfully investigated—individually, as well as in relation to each other—under the umbrella theme of the business model. And also Zott et al. (2011) found that four important themes are forming, primarily around the notions of the business model as a

new unit of analysis, offering a systemic perspective on how to “do business,” encompassing boundary-spanning activities performed by a focal firm or others, and focusing on value creation as well as on value capture. These themes are interconnecting and mutually reinforcing.

Business models convert new technology to economic value. For some start-ups, familiar business models cannot be applied, so a new model must be devised. Not only is the business model important, in some cases the innovation rests not in the product or service but in the business model itself. Henry Chesbrough et al. (2003) present a basic framework describing the elements of a business model. Given the complexities of products, markets, and the environment in which the firm operates, very few individuals, if any, fully understand the organization's tasks in their entirety. The technical experts know their domain and the business experts know theirs. The business model serves to connect these two domains as shown in the following diagram:

Figure:- (1) Role of the Business Model



A business model draws on a multitude of business subjects, including economics, entrepreneurship, finance, marketing, operations, and strategy. The business model itself is an important determinant of the profits to be made from an innovation. A mediocre innovation with a great business model may be more profitable than a great innovation with a mediocre business model. Chesbrough et al. (2003) identified six components of the business model: such as value proposition, market segments, value chain structure, revenue generation & margins, position in value network and competitive strategy.

According to Chesbrough the business model strategy has identify three differences: Creating value vs. capturing value, Business value vs. shareholder value and Assumed knowledge levels. The business model focus is on value creation. While it also addresses how that value will be captured by the firm, strategy goes further by focusing on building a sustainable competitive advantage. The business model is architecture for converting innovation to economic value for the business. However, it does not focus on delivering that business value to the shareholder. The business model assumes a limited environmental knowledge, whereas strategy depends on a more complex analysis that requires more certainty in the knowledge of the environment.

However, new technologies often require new business models. Because start-up

companies are free to choose or develop a new business model, in this regard start-ups have an advantage over more established firms. In addition to the risk incurred in the technological and the economic domains, an unproven business model adds additional risk, and entrepreneurial ventures usually are more prepared to accept this risk than would be a large, well-entrenched firm. In fact, many venture capitalists see themselves as investing in a business model. Consequently, it often is the venture capitalist that pushes for a change in the business model when it becomes apparent that the original model is not working.

### **New Organizations**

Løwendahl (2000), the structure of the organisation and the nature of the projects and other activities are complex and cross the organisational boundaries. Internal communication can facilitate more active in internal networks. Low hierarchy may enhance innovations and creativity which are essential when pursuing better service and competitiveness. The formal structure establishes broad responsibilities and channels of communication, but since the tasks change and dimensions increase, informal coordination matters Järvenpää and Immonen (2002) see that external networks are important in addition to internal networks. They also consider learning essential in organisations. Moreover, organisation culture should emphasise the development and identification of innovations. Still, problem solving and creative thinking can transform into routines in the long run. (Løwendahl 2000).

Lewin and Stephens (1993) examined the literature on new organization forms, and found no ideal-type description of the structures. The first attribute Lewin and Stephens recognize is the delivering of levels of management. The second attribute is the decentralization of decision making, which is attained by granting more authority and accountability to lower levels of the organization than would exist in a bureaucratic structure. The culture and values inside the company must encompass teamwork, openness, and cooperation, and acquire "a kind of self questioning ability that underpins the activities of systems that are able to learn to learn and self-organize" (Morgan, 1997). The third attribute is the development of permeable boundaries with stakeholders. Many companies are integrating their information technologies with suppliers and customers, in order to aid all constituents in the supply chain of the product. The organization empowers its members to make decisions, to schedule the flow of work, to order materials, to develop the product, and to evaluate each other.

### **Value Creation to Business**

The value creation process of the professional service firms can be illustrated as follows: (1) selling a credible promise to client, (2) delivering the promised value, and (3) learning from the process to improve future activities. Løwendahl (2000) The


same value creation process can be adapted to various kinds of new business organisations. Porter and Millar (1985) highlight that information changes industry structure, alters the rules of competition, and generates whole new businesses. Porter (1990) emphasises that the value chain should be managed as a system rather than a collection of separate activities. He has adapted also services in addition to information to value chain model but there is still some lack of interaction in this model. Also the degree of customisation and degree of intangibility cannot always be described in terms of value chain analysis. Many advanced models and ideas, such as value shops and value networks, have been developed by utilising the value chain model. Value networks encompass much more than the flow of products, services, and revenue of the traditional value chain

Instead of just the supply chain the whole company has to utilise relationships in networks. Knowledge creation and service processes can be developed in every activity of the chain and new configurations of value chain (i.e. value shop, value network) should be implemented. Value chain contributes well to cost accounting and although price is not on focus in knowledge intensive, value creation is important to notice. The main problem of value chain analysis is that it describes activities of manufacturing companies where products are delivered to the client but it does not recognise interaction with the client during the activities. Also the primary focus of value chain is unclear: is the focus really on the value for the client and high quality or on cost reduction and successful pricing? The following diagram shows different types of value creation.

### **Value Network**

The business webs or networks behave as complex adaptive systems, when they evolve they do so along multiple dimensions. Whenever new forms arise, we find old forms are dismantled and reassembled into new configurations. Much of the study that results from organizational change efforts arises not from trying to do something new, but from careless disregard of the complex system or systems that will be changed or impacted in the process. By more fully understanding the tangible and intangible exchanges that create value, people can more easily see where to make needed changes without wreaking havoc on the whole system. Any business modelling approach has limitations. After all, the map is not the territory. But in today's complex business environment where competitive advantage often rises from innovations and relationships, the value network perspective can be useful for helping people address complex systemic issues in organizations, business webs, and economic webs.

**Different Types of Value Creation**



	Value Chain*	Value Shop*	Value Network*	Transaction Management***
Capabilities	Efficiency of Production	Solving of Problems	Leverage of Infrastructure**	Orchestration
Pricing Mechanism	Cost of Product	Value for 'Client'	Rights to Access	Management of Complexity
Result	Product	Outcome	Links	Sourcing
Value Generation	Process and Scale	Knowledge and Scope	Services and Connections (n <sup>2</sup> )	Information and Transformation
Examples	Manufacturing	Hospitals	Telco Industry	Li & Fung ("Trading")

\*) Source: Stabell, C B, and Fjeldstad, O D "Configuring Value For Competitive Advantage: On Chains, Shops, and Networks", Strategic Management Journal, Vol 19, 413-437 (1998); and James D. Thompson: "Organizations in Action", 1967

\*\*\*) or 'mediating technology' (according to James D. Thompson).

\*\*\* based on ideas from: Victor K. Fung, William K. Fung, Yoram (Jerry) Wind: "Competing in a Flat World: Building Enterprises for a Borderless World", 2007

The successful forms can be understood as value networks operating on important ethical principles of trust, responsibility, and integrity. With a value network perspective, not only can people manage their own organizations more effectively, they can build robust, expanding value networks that serve both private enterprise and the public sector. Indeed, the very terms for-profit and not-for-profit will become obsolete as people appreciate the economy itself is one value creating system providing tangible and intangible value of value networks.

Value network analysis is a business modeling methodology that visualizes business activities and sets of relationships from a dynamic whole systems perspective. It includes several unique analysis approaches and also integrates with other modeling tools such as process tools, social network analysis tools and system dynamics. Increasingly knowledge and other intangible assets such as human competence, the ability to form strong relationships, and a capacity for mutually beneficial collaboration are the foundations for success. Strong value-creating relationships support breakthrough innovation at the operational, tactical, and strategic levels. Consequently, today we are shifting to a world of dynamic, rapidly adapting value networks loose and complex configurations of industries, businesses, and business units within organizations that engage in mutually beneficial relationships. Tools used in the past to analyze business value creation, such as value chain and process models, are simply inadequate to address this new level of business complexity.

It is clear we need new lenses and tools to succeed in this current economic

environment tools that might feel as strange to us today as process flow charts did in the early days of Total Quality, Lean, Six Sigma and reengineering. The approaches Verna Allee has developed, HoloMapping and Value Networks Analysis, support a more organic whole-system understanding of the value network or value web. Competency development can be embedded into everyday projects in ways that bring immediate business results. The value network approach helps individuals and work groups better manage their interactions and address operational issues, such as balancing workflows or improving communication. It also scales up to the business level to help forge stronger value-creating linkages with strategic partners and improve stakeholder relationships.

This ICT model explained figure (2) services of value networks consisting of consumers, service providers, multi-tier and auxiliary enablers. This assumes that the value and delivery of services is a complex set of relationships among these actors, where the consumer plays the central role. In particular, argued that the nature and extent of B2C service value drives and determines B2B service value as well as other enablers. This also showed that the complexity of service value networks not only depends on the number of actors but also on the conditional probabilities that these actors are involved in delivering the service to the consumer. The ICT has played a significant role in transforming the relationships among network actors and the delivery of services.

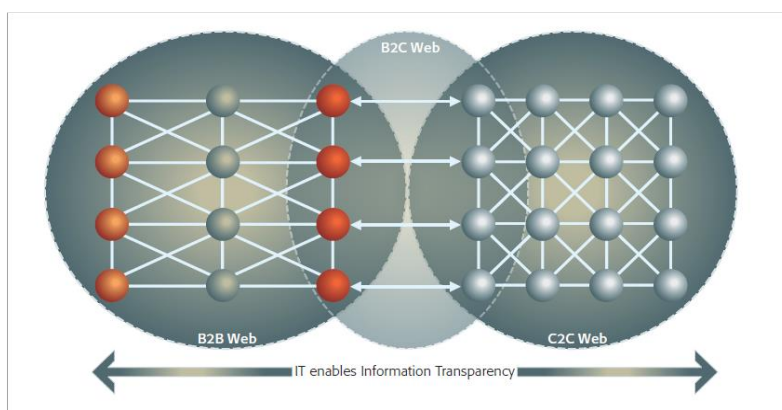


Figure:- (2) ICT enables networks

### **Knowledge and Competence**

The amount of knowledge production and creation is increasing extensively. Due to a changed view of society and business, new understanding of competitiveness is needed. Especially, knowledge and competence are challenging classical and contemporary approaches to competitiveness. When new market value is consisting of intellectual and financial capital there should be a model explaining elements of competitiveness of knowledge intensive from the dynamic and holistic point of view.

During the last decades success was explained through market shares, quality and customer satisfaction. Nowadays attention is called to competences and adaptation to technological, Innovation, Knowledge and Market changes.

Grönroos (2000). This inheritance of Industrial Age is about to change to the direction where intangible services are on focus in Knowledge Society. As early as (1985 Nurmi) recognised that service organisations have many similarities to knowledge organisations. Services, products or processes can be knowledge intensive. Knowledge intensiveness is about how knowledge is produced and delivered, not about the amount or extent of knowledge. Knowledge intensive work requires a creative problem solving and abstract thinking. Knowledge intensive firms include for example R&D, advertising, educational, consulting or management consulting companies. These services are intangible and often information- and consumer-intensive.

### **Analysis**

This paper is based on a literature review of three theories that describe models of competitive advantage in contemporary business. The setting of the paper takes (1) classical approach, i.e. value chain analysis, (2) contemporary approach, i.e. resource- and knowledge-based views of a firm, and (3) emerging approach, i.e. complex adaptive system. All models considered above explain some basic perspectives of competitiveness but also include some gaps that appear in the context of value business model. It is essential to combine those theories and recognise which characteristics are valid and important when improving competitiveness.

### **The Value Chains Analysis (VCA)**

The concept of a Value Chain has existed for twenty years but we find it still is an unclear concept. It has been suggested that the third generation supply chain is based on customer intimacy and is fully synchronized. The Value Chain concept was developed and popularized in 1985 by Michael Porter, in *Competitive Advantage*, a seminal work on the implementation of competitive strategy to achieve superior business performance. Porter defined value as the amount buyers are willing to pay for what a firm provides, and linked up the value chains between firms to form what he called a Value System; however, in the present era of greater outsourcing and collaboration the linkage between multiple firms value creating processes has more commonly become called the value chain.

Value is highly conditioned by the larger social and economic environment through which complex and numerous interactions affect the human perception of value-based transactions. Advertising, social trends, and economic conditions all influence consumer and business valuations of products, services, and resources flowing



through the value systems in our economy. One of the most watched figures in the marketplace is the consumer confidence index based on a survey of households. This index is an aggregate measure of confidence in the economy and a leading indicator of how consumers will value, and therefore how they will spend money on goods and services. When significant trends take hold in this larger environment it is difficult, if not impossible, for individual companies or households to avoid being swept along in the sudden creation and destruction of value that may result.

### **The Resource-Based View (RBV)**

The RBV attempts to explain how companies can gain sustainable competitive advantage through resource analysis which is the core of design and implementation of appropriate strategy. The RBV refers to internal analysis and it attempts to scan for internal strengths and weaknesses. Barney (1991) categorises all kinds of resources into three main categories: physical, human and organisational capital and adds firm attributes information and knowledge to the list. Managers have the greatest power when allocating resources in a right way, and therefore planning and decision making are also highlighted and have concluded that managerial skills are the most important resource to contribute to the sustainable competitive advantage. A successful strategy is formulated through analysis of resources, decision making, and ambiguous and unique history of the firm. The possibility of innovation and learning is to happen through processes of strategy formation. So, the main problem of the RBV is that it emphasises mainly decision-making and managerial skills and not enough learning and innovation of the whole organisation. Anyway, the RBV clarifies strategic thinking and strategy formation from its own internal perspective.

### **The Knowledge-Based View (KBV)**

The resource-based view considers knowledge as a general resource. In the end, the studies in the various fields of knowledge management claim that knowledge has many characteristics such as tacit and explicit features. Due to specific dimensions of knowledge Kaplan et al. (2001) see, that knowledge should be analysed separately from other resources. Sveiby (2001) sees that knowledge is dynamic, personal and clearly different to data or information. Grant (1997) sees knowledge as a strategically important input in production while producing additional value and competitive advantage can be achieved if tacit knowledge is integrated widely in organisation and replicated inside the organisation.

Value creation is based on explicit and tacit knowledge transfer between individuals and knowledge configurations from one form to another. Competitive advantage is explained via knowledge creation, knowledge configurations and knowledge sharing. The additional value is created through knowledge. The KBV recognises the importance of human resources, competences and intellectual capital in

competitiveness. It emphasises that active and interactive communication enables better quality of services. Knowledge organisations are resource-driven which emphasises the importance of the internal resources, competences and human resources in relation to the demands of its owners, clients and competition in a certain business.

### **Complex Evolving Systems (CES)**

According to Mitleton-Kelly<sup>3</sup> (2003) Complex Evolving Systems (CES) is an approach to understand dynamical change. CES is a system with interaction which systems can be social, ecological, economical, cultural, political, technological, traffic systems etc. (Dooley 1997). CES have three central concepts that are self-organisation, non-linearity and emergence. Self-organisation enables learning and organisational change and it is a key characteristic of complexity (Prigogine 1997). Complexity shifts the emphasis from control to enabling environments and relationships (Mitleton-Kelly 2004). The *self-organisation* means the action in human organisation, where agents spontaneously come together to undertake an activity not directed by an external agency. *Non-linearity* can be defined through non-linear systems. A linear system is one in which the chain of cause and effect can be easily ascertained. *Emergence* means something new, surprising and unexpected (Mitleton-Kelly 2004). Emergence is a novel, sudden appearance of new order. So, it is an overall system behaviour that comes out of the interaction of many participants (Lissack 1999).

In complex evolving systems individuals can be regarded as agents that are connected with each other within the system where they can interact. All agents observe and act on local information and co-evolve with one another. Co-evolution means that each agent adapts to its environment striving to map and increase the fitness in the business landscape. The linkages between agents may evolve over time and change the pattern describing the strength of connections. If all the members co-evolve and the system self-organises, complexity is an appropriate way to describe the processes of the firm and its certain pattern of behaviour. According to Dooley (1997), Each one of CES concepts is a dynamic approach to an organisation and attempts to explain how all agents in the organisation emphasise new value creation logic. Concepts of CES are capable of explaining competitiveness in dynamical environment where new approaches are needed but it demands deep understanding, and advanced modelling. CES has a comprehensive grip to organisations: when understanding dynamic complexity it is possible to understand the whole organisation and its activities. CES emphasises learning, continuous change and interaction and it complements classical and contemporary approaches of competitiveness.

### **Discussion**

#### **Competitiveness Business Model**

Often the concepts of competitiveness are not even defined clearly. Ojala's (2002) definition of competitiveness is build of characteristics, which are important and vital. Those characteristics are: productivity, ability to produce high quality, regeneration and innovativeness. Competitiveness is based on competence of both individuals and the company. In this research it is assumed that all over world IT, and Web infrastructure were established and all firms operate on web based trading environment in a market and they try to get competitive advantage in relation to other firms. Competition, competitiveness and competitive advantage are approached in many ways in literature. Also levels of their definitions are different. They can be firm-level, regional or national definitions of competitiveness.

When considering characteristics of value business model, vital competitiveness factors include knowledge, competences, professional skills, networks, R&D-function, and innovations. Competence and knowledge are inputs to production in business model. A service is based on interaction where professionals and clients cooperate. In the changing business environment the companies have to commence in networking. Networks also act as channels for communication and knowledge creation. In networks knowledge and competences accumulate the innovation rate augments due to low organisational hierarchy. Inputs that promote competences and innovations may create good opportunities for companies and be also good basis for the R&D. The most important input in networks is knowledge that facilitates creativity and innovation.

As this study has shown, many different models are explaining same phenomena from different angles or with different words. In value chain analysis the main purpose should be value creation for the client and high quality of the services. Interaction with the customer should be taken into account in every activity of the chain. When considering the RBV it is possible to notice that some resources are vital to competitiveness. Examples of them are competences, professional skill and other intangible capitals. Also the KBV is recognising this value creation in an intangible level. When emphasising the role of professionals to achieve competitive advantage, the new approaches may favour low hierarchy or at least a consideration of the need for forms of control. Naturally the managerial skills are important but they should be seen as resources to create conditions that facilitate innovations and self-organisation. In innovations complexity is needed. Not detailed complexity but dynamic complexity to increase sensitivity towards weak signals and to contribute to innovations in the R&D-department and whole organisation. Through new routines and non-linearity in organisations it is possible to achieve new order caused by non-linear knowledge creation and sharing. (Haataja and Okkonen 2004).

Emergence and self organising is happening all the time. Complex living systems are

self-regulating and self-managing. Now, In a rapidly changing economic and business environment self-organization is the only way complex webs of business activities can respond quickly and effectively to change.

To be successful, people need to understand the patterns of value exchange, the value impact of the tangible and intangible inputs they receive, and the dynamics of creating and leveraging value. The whole-system value network approach and future spider business model showed in figure :- (3) is a simple method to master and understand the future business model which each self organization create value business model by incorporating new understandings inputs, channels and process of business model, it provides a foundation for much more effective management practices in the networked world of organizations. The power of an intangibles perspective and the self-organizing potential of a truly transparent organization can then be fully realized.



Figure:- (3) Future Spider Business Model

### Conclusions

The proposed new business model figure :- (4) refer to inputs, channels, process and outputs to achieved competitive advantages. All models considered above explain some basic perspectives of competitiveness but all of them include some gaps that appear in the context of value business model. Value chain analysis explains the logic of value creation for the customer but it is very mechanistic and its functionality is based on stable organisation. However, the environment of the present business is turbulent and dynamic. Moreover new configurations of value chain (value shop and value network) and new ideas of value creation by Løwendahl (2000), should be taken into account. The RBV explains the power of both rightly selected resource bundles and strategy but the process is one-way. Managers are almost the only actors and decision-makers even though the power should be distributed throughout the whole organisation. Both value chain and the RBV are valuable when analysing the firm internally and in a static way. The KBV and the concepts of CES are dynamic and they describe the organisation as a dynamic entity where interaction with the client is important. In the KBV knowledge creation is carried out in certain context.

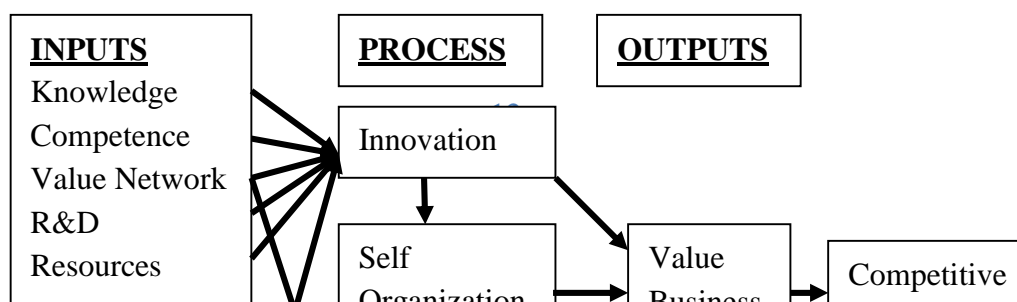


Figure:- (4) Proposed Value Business Model

When considering the most applicable concept of CES, self-organisation could be applied to understanding of competitiveness in the present business. In dynamic environments self-organisation is associated with interaction so that the customer-producer-process is interconnected. Thus, the KBV is valuable but the linkage between the internal and the external actor (agents) is not so tightly connected than in self-organisation concept. In new value business model, the process with the client is complex, interactive and vulnerable. When all agents in the organisation emphasise new value creation logic (self-organisation) improved competitiveness can be achieved. When considering the building blocks in competitiveness model of value business, the different models are adapted into that new model. Those elements include knowledge, competences, professional skills, value networks, R&D, communication, strategy, relationship and innovation. From CES perspective value is created through non-linear interactions, where self organisation creates new order and high quality for the organisation. Through emergence innovative environments and new ways to develop competitiveness in new value business model can be created.

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