Rethinking the European Business Model

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ABSTRACT  
The notion of business models makes possible to describe how a company creates value through innovation, generally within a business ecosystem, and how the value will be distributed between the actors involved. The experiences corporate managers made in the recent economic recession, the existing volatility of the environment, and the resulting uncertainty is changing what is regarded as best practice in enterprise management. Companies will experience a new focus on entrepreneurial sustainability. The European Union has a role to play in this plan: it needs to promote a European business model that integrates sustainable development and social responsibility.

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Business model, innovation, cooperation, economic recession

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1. Introduction

The experiences corporate managers made in the recent economic recession, the existing volatility of the environment, and the resulting uncertainty (the "new normal") is changing what is regarded as best practice in enterprise management.

Companies will experience a new focus on entrepreneurial sustainability, particularly on the art of living with uncertainty, on turning risk into opportunity, and on creating real and sustaining value not only from a customer and investor, but from a broader stakeholder, environmental and social perspective.

Those enterprises will be successful in the future that develop in a systematic way their capabilities for forward oriented direction-finding with a more long-term and strategic perspective that includes all material, financial and immaterial factors of enterprise success required to create and maintain sustainable competitive advantage from a customer, investor and a stakeholder perspective.

Consequently, a new approach to enterprise management is required. Companies need leadership, organizational, people management and stakeholder relationship concepts, as well as control and direction-finding systems that help them to succeed in the new environment: to enable their people, business partners, customers and other stakeholders to influence their full potential in the company’s ecosystem and that help to create an organization that is able to maintain its core values and mission in a constantly changing and dynamic environment - while adapting to new customer and stakeholder expectations and needs.¹

¹ The International Institute of Enterprise – Heidelberg (IIOE), http://www.iioe.eu/  
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The control and direction-finding system has to support this. And it has to support active performance management as well as good trade-off decision making that balances the focus on short term business and financial results with the need to care for the future by building and maintaining long-term potential yield, competitive strength, and stakeholder value. This requires to extend the traditional (pure internal) focus on financials and profitability by systematically integrating the customer and stakeholder value add perspective into the formal reporting, control and steering system.

2. Business models

A business model describes how an organization creates, delivers, and captures value. A business model is an organization’s design for creating, delivering, and capturing value and for generating the revenue it needs to cover costs, reward stakeholders, and reinvest in order to remain competitive. All organizations, whether for-profit or non-profit, have a business model, whether or not it’s explicit.

Most business model definitions highlight four key elements:

- Customer value proposition, which explains how an organization will address customers’ needs through a product or service it offers
- Value chain, which organizes processes, partners, and resources to deliver the value proposition
- Profit formula, which lays out how an organization will generate enough revenue to more than cover costs
- Competitive strategy, which describes how an organization will compete with rivals and defend its position in the value network.

Given the many possible combinations of these four elements, it might be thought that any particular industry would exhibit a wide variety of business models. In practice, however, most mature industries, including higher education, feature only a few, which are normally referred to as the industry’s dominant business model(s). These provide the main trajectory for business growth and development within an industry—for example, the path to becoming a top-tier research university in the higher education industry.

New business models arise and even displace the currently dominant ones when innovative organizations develop different value propositions, value chains, profit formulas, and/or competitive strategies that enable them to provide greater value to more customers—often by taking better advantage of new technologies. Of special interest here are business models that are “open,” “multisided,” and “unbundled” and that involve “facilitated networks.”

3. Reshaping the concept of business

Businesses of tomorrow will be much more efficient if they take into account the interests of third parties that are affected by their activities. It is therefore necessary to rethink the concept of business to break with the logic of shareholder primacy and substitute it with a logic based on cooperation.

The European Union has a role to play in this plan: it needs to promote a European business model that integrates sustainable development and social responsibility. It can do this in several ways: by demanding systematic social and environmental reporting from businesses affected by the directive on European work councils and also by encouraging businesses to opt for the
European Company Statute adopted in 2004 to allow businesses to operate in all member states under a common juridical form. The content of the directive that defines a European Company is a lever of change at the community level.

Currently, corporation law does not exist. All that exists is company law, in which business appears as a nexus of contracts between directors and shareholders (corporate governance) and between directors and their employees (labour law), and suppliers and sub-contractors (commercial law). In consequence, the model of governance remains that of shareholder primacy: the business is the property of the shareholder who can use it, benefit from it and abuse it without having to answer to anyone.

This model is in crisis today because it is based on the separation of ownership of and control over the business, which gives management complete authority over its direction. Yet recent financial scandals in France and Europe have shown that directors can free themselves sustainable from this control. The measures taken to attack this shift (law on financial security in France, Action plan for financial services in Europe, the Sarbanes-Oxley Act in the United States) remain inside the current framework, only reinforcing the control mechanisms of directors.

Yet shareholders, being very dispersed, do not really intervene in business strategy. For the most part, firms are “black boxes” so they are content to simply follow the share price. The stock market value, presented as an indicator of shareholder confidence, serves today as a screen against financial policies for directors oriented exclusively towards the satisfaction of their financial interests at the expense of the long term profitability of capital investments of shareholders and the fruits of their employees’ labour.

But this model of shareholder primacy is in crisis today because the long term profitability of investments depends more and more on the management of social risks, social and environmental links to business activity and business’ relation to its environment. A business will be much more efficient in the future if it takes into account, in its strategies and in the missions it sets, the interests of external parties affected by its activities. We call these groups stakeholders. The business’ capital is no longer exclusively that invested by shareholders. Its accumulation and valuation should henceforth result from a partnership between employees, shareholders and external stakeholders. The directors are chosen to balance the interest of all these parties.

It is therefore necessary to radically rethink the concept of business itself, to break with the purely proprietary logic and substitute it with one based on cooperation in the sense of a partnership between different competing interests in the total value of a business: shareholders, employees, directors, but also external stakeholders.

From now on, questions of governance will be posed differently. The corporate law must define how different parties are implicated in its definition of objectives and business strategy. Directors’ control mechanisms will be designed more towards internal management, even if regulation is necessary to organize minimal interventions assuring the greatest transparency regarding reporting and access to information for social credit rating agencies.

4. The European business models

In the European context, a new corporate law needs to be designed in the framework of the European directive that defines that status of a European Company. Currently, this directive opens the shareholders’ freedom of choice to include both classic structure and a dual structure (Supervisory Board and Board of Directors).
But if the issue is to affirm a business model that integrates a decision to move toward sustainable development and corporate social responsibility, the dual structure is preferred.

This is because it is the Supervisory Board, where strategy is developed and control over directors is exercised, that allows for the participation of representatives of employees and certain external stakeholders alongside those of shareholders.

Beyond this reinforcement of control over directors, this governance structure allows for a better accounting of the strategic character of the relationship between business and its environment.

The European Union should therefore encourage businesses to adopt this structure by strengthening the Social and Environmental Responsibility aspects of the directive itself.\(^2\)

The European business model approach enables a company to take a strategic look at its complete business structure, along with its corresponding tax and legal structure, rather than just one or two components in isolation. During this strategic review, the company can identify its value drivers and begin to develop a platform for growth surrounding them in the context of the changing environment. The result of this approach is an 'integrated vision' which maximizes both operational and tax efficiencies for Europe as a whole. These will often involve centralizing ownership and management with more branding and marketing spend.\(^3\)

5. Rethinking business models for innovation

One of the major challenges confronted by those in charge of technological innovation involves anticipating the value creation model sufficiently early on, in a highly uncertain context both as far as the technology itself is concerned and the potential market.

Today, in many industrial sectors, the innovation boundaries have moved towards projects that are more and more exploratory and fuzzy. The simple optimisation of linear processes of the "stage-gate" type is no longer sufficient to build sustainable competitive advantages.

The notion of business models, when applied to innovation, enables us to describe how a company creates value through innovation, generally within a business ecosystem, and how the value will be distributed between the actors involved.

The notions of business modelling and value creation are key to all the dimensions of successful innovation, whether technology, marketing, organisational or economically based.

The business model is in a way the company's realistic conversion of its ambition and its strategy to achieve it. It is also about ensuring that innovation brings value to the company, to its employees, customers and partners as well as to its communities and the environment.

Business model innovation is regarded already today as the major driver of value creation and growth. In a few years, it will be the main source of competitive advantage. The opening of markets and continuously accelerating global competition are leading to a situation in which competitive advantage based purely on product advantage will at best be only short-term. The way products are created, delivered, and maintained will make the greatest difference in the future. How companies do business will often be more important than what they do. Consequently, companies will have to continuously review and reconfigure their business models.


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In the process of business model innovation, the challenge for companies is to **balance stability and reliability with innovation and change**. Without a systemic approach that ensures that all involved internal and external parties work ‘in concert’ to develop and implement one consistent business model that can leverage existing assets and that is aligned with the markets that won’t be possible. Business model innovation needs to be turned into a systematic process that enables organizations to execute it with operational excellence and to repeat it successfully again and again.

Organizations that start to think about to work on business model innovation and to institutionalize the process soon discover that they have to find new answers for a whole range of questions and have to struggle with many challenges.

The intention of the European Business Model Innovation Forum is to leverage the collective intelligence and experience of a group of professionals – cross-company, cross-industry, and cross-country – to accelerate the process of developing a ‘best practice business model innovation process guideline’ and to facilitate learning and new insights that help the participating companies to successfully implement business model innovation in their organizations.

Specifically this should enable them to avoid the cost of failure and implement change without jeopardizing the existing business, to create real differentiation and to beat competitors, to overcome resistance to change and increase speed, to boost productivity and reduce down time, and to measure the impact of change.\(^4\)

### 6. Rethinking the business model at European financial companies

With regulatory changes and cost pressures - as well as new players and lucrative opportunities - European financial organizations need to determine where they fit into the new industry landscape.\(^5\)

Seizing these opportunities is not for the weak of heart. It requires bold decision-making that drives at the heart of financial services institutions’ understanding of where they fit into the market. With their industry in a state of flux and with many unforeseeable outcomes, banks need to be extremely introspective and rethink their identities, emerging with a fundamental shift in their business models. In this context, essential questions should be explored:

- Who are my customers, partners, competitors?
- Are there functions or processes that require too large of an investment and should be accomplished outside the organization (outsourcing)?
- Are there areas in which an investment would launch a lucrative new business opportunity?

As in many other industries, the old models just don’t cut it anymore.

Such disruptive thinking is not new to the financial industry. Over the years, in response to market conditions, customer demands and regulatory requirements, financial services institutions have identified their core values and focused on them, while buying and outsourcing other components of the value chain.

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European banks need to take strong action to stay competitive and find their place in a continuously changing landscape. Regulatory pressures and industry-led initiatives continue to be in play and drive how the industry redefines itself. Some of the imperatives include the following:

- **rebuild trust:** As a clear fallout of the financial crisis, a top agenda item is to regain client trust. This would require banks to invest in understanding customer behaviour in detail, improve services and provide greater transparency in customer reporting, as well as disclosures.

- **get ready for change:** Banks need to be responsive and flexible in embracing new business models, with minimum impact on client services.

- **think alternate business models:** Financial services firms that rapidly embrace innovation will find themselves in a leading position to influence new industry operating models, as well as leverage their investment by offering services to other institutions still trying to manage the change.

- **identify core propositions:** In extreme situations, financial organizations may have to make hard decisions, such as identifying their core value proposition and turning these into strategic differentiators, while seeking alternate ways to service non-core areas, such as outsourcing, subscription-based white-labelling, or completely exiting the non-core business altogether.

- **make differentiators:** In their quest to survive in a world that is increasingly becoming flat, thanks to several pan-European harmonization initiatives, banks need to find ways to differentiate in order to attract and retain customers. This can happen through distinguished offerings, a portfolio of services, a dedicated focus on regaining trust, or expanding their horizons and moving into a different association by becoming pan-European.

**References**

11. *** The International Institute of Enterprise – Heidelberg (IIOE), http://www.iioe.eu/.