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Innovative business models and crisis management

Genti Beqiri - Phd Candidate[1]

European University of Tirana
Department of Management
UET - Bul. Gjergj FISHTA, Tirana 1023, Albania

Abstract

Nowadays the worldwide and regional increasing competition, increasing demands from customers asking for more sophisticated products and the rapid changing of the environment where the businesses operate, has created the need for innovative business models. From a survey run by IBM in 2008 it was concluded that Chief Executive Officers from many corporations feel the need to adopt their business models and even to undertake larger changes as a result. Most financial analysts or academics take the music industry as a prime example of failure to innovate its core business model, especially in this troubled crisis period. There are many other industries where failure to innovate its core business lead to their decline. One of the biggest calamities of the current recession is the fall of the once highly regarded (and onetime fourth-largest) Wall Street investment firm – Lehman Brothers Holdings, which was forced to file for bankruptcy protection few years ago. Not many years ago another giant WorldCom second biggest long distance phone company in the US filed for bankruptcy burning 107 billion USD of assets. It is claimed that the financial crisis is the reason. But, is the financial crisis the only reason for failure? The reality shows that the business models and crisis management provisions have lost their role. The aim of this article is to present the rationale on the need of investing in innovative business models as the literature tells and run a comparative study using data from two or three big corporations in order to show how innovative business models can help the management to take the right decisions when dealing with crisis situations. The main result and conclusion of this article is to show that the failure of many corporations is not created by the crisis alone, but because the management did not innovate its business model.

[1] Corresponding author. Tel.: ++355 68 6077585; fax: ++355 68 6077585
E-mail address: genti.beqiri@uet.edu.al

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1. Introduction

It should be no surprise that if we ask executives and corporate employees to define the term of business model and to share the company's business model story, we tend to get a lot of blank stares and very different stories from across the organisation. For most, their business model has been in place since the business started, before most employees joined the company. Years ago the basic rules for how a company creates, delivers and capture value were established, fortified by functional archives and sustained by reinforcing company cultures. All energy and resources were focused on scaling business model and beating back competition attempting to do a better job executing the same business model.

At the present time increasing competition, increasing demands from the clients for more sophisticated products, technology and the rapid changing of the environment where the businesses operate, create the need for ground-breaking business models. From a survey run by IBM in 2008[2] it was concluded that Chief Executive Officers from many corporations feel the need to adopt their business models and even to undertake larger changes as a result.

What is a business model? Although there is no generally accepted definition of "business model", practitioners and academics often talk loosely of a business model as "*the way the firm operates to value creation and value capture*[3].

Another definition, by Saul Kaplan (2012), mentions business model as the rationale of how an organization creates, delivers and capture value-economic, social or other value. The importance of business model derives since 1950s where new models came from McDonald's Restaurants and Toyota. Then with the evolution and new dynamics of the markets the business model got innovated such as Wal-Mart and Hypermarkets, FedEx, Blockbuster, Dell Computer. In the last decade with the explosion of Information Technology it was more necessary than ever before to change the business model toward a model that is based on competitive advantage. In other words the focus has been to invest more on business model than on new products and services.

According to a survey run by Economist Intelligence Unit in 2005 for the five coming years, 4018 executives and leading decision-makers around the globe declared that how companies do business will often be more important than what they do[4]. With the last financial and economic crises which started in 2007 in USA and spread worldwide in 2008 and 2009, the said survey proved to be true.

The main theme of this article is to present the rationale on the need of investing in innovative business models as the literature tells and run a comparative study, using data from two or three big corporations in order to show how innovative business models help the management take the right decisions when dealing with crisis situations.

The first section presents the notion of business model. Section 2 provides the link between the business model and the latest financial economic crises illustrated by case studies. In section 3 we present a SWOT analysis. Last section gives conclusions and recommendations.

2. Business Models

As mentioned in the introduction section many define the business model as the way the firm operates to value creation and value capture. A more thorough definition of the business model describes it as a model which consists on the set of choices that a company makes and the set of consequences from those choices5.

Surprisingly, the business model is often studied without explicitly defining the concept. In many business model

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[3] Masanell Ramon-Casadeus, Ricart Joan E, Company Strategy: Business Model Reconfiguration for Innovation and Internalization, Working Paper, 2009, pg 2

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