

Original article

Business models and business innovativeness and goodwill

Monika Tomczyk* , Monika Sychalska-Wojtkiewicz 

Faculty of Management and Economics of Services, University of Szczecin, Poland,
e-mail: monika.tomczyk@wzieu.pl; monika.wojtkiewicz@wzieu.pl

INFORMATIONS

Article history:

Submitted: 23 March 2018

Accepted: 18 November 2018

Published: 15 March 2019

ABSTRACT

Business models are a tool offering a relatively easy way of supporting innovation and goodwill management in an organisation. The article defines the role and place of business models in modern company management.

KEYWORDS

business models, innovation, non-technological innovation, goodwill

* Corresponding author



© 2019 by Author(s). This is an open access article under the Creative Commons Attribution International License (CC BY). <http://creativecommons.org/licenses/by/4.0/>

Introduction

Business modelling allows company management to realise a number of aspects which otherwise could be ignored in management practice or considered insignificant. In consequence, the application of such models offer a more extensive perspective on business activity. This directly translates into more informed planning and more agile responses to market needs. Hence, it is easier for a business to manage its value. The purpose of this article is drawing attention to the functionalities of business modelling and its practical use in improving business innovativeness. The above issues were explored using the desk research method.

1. Creation of business value

Purposeful activity aimed at increasing business value is possible when this value is defined and when it is determined what creates it. According to primary sources there are numerous approaches to the definition of business value. One of them, created R.C. Miles, states that value is such a feature of any object thanks to which it is perceived as a more or less desired one, useful, respected and important. Value is reflected in the price of a given object or service which customers are ready to pay. It is not easy to set a price because the usability of particular goods may differ for various individuals [1, p. 15].

In post-industrial economy, frequently called knowledge based economy, the determinant of the company value is precisely knowledge, contrary to the domination of land

in agricultural economics or capital in industrial economics [2, p. 12]. M. Marcinkowska presents a classification of factors contributing to business value. She divides them into the following groups:

- factors related to balance sheet items – elements which are included in the balance sheet or are related to assets and liabilities,
- factors which are not related to balance sheet items – this group encompasses factors which are not officially included in the balance sheet; these are external factors that a business can influence only to a very limited extent and internal ones which directly depend on the business and hence it can shape them [3, p. 39].

The process of building the business value involves also various internal and external resources. J. Berney divides them into physical, human and organisational ones. These base resources form a foundation for building key competences allowing to build durable value [2, p. 19].

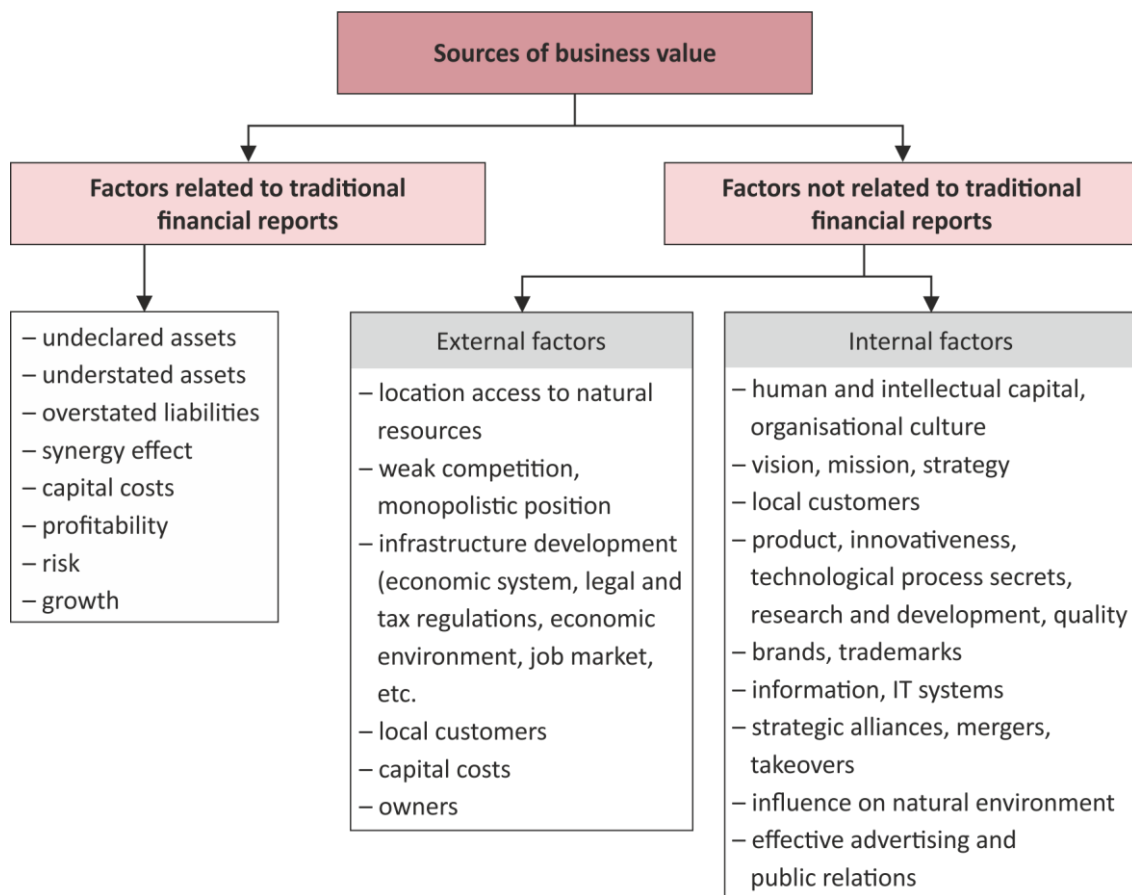


Fig. 1. Classification of business value
Source: [4, p. 177].

The valuation of goods is not easy because the determination of the desire for depends on various entities which need these goods. Depending on these needs, it is

possible to use various valuation standards. There are the following factors influencing these standards:

- valuation goal,
- condition of goods,
- methodological conditioning,
- legal conditions,
- adopted assumptions and limitations [5].

Standards accepted in business valuation encompass one of the following business value categories:

- **fair market value** expressed in money or another equivalent of the object value assuming that a transaction is made with a hypothetical seller and buyer who do not act under pressure (order). It is assumed that a valuer has sufficient knowledge on the parties to the transaction and that the buyer and seller have sufficient knowledge on the values object,
- **fair value** expressed in money or another equivalent, estimated by particular buyers not interested in a real transaction and particular sellers not interested in a real transaction. The seller or the buyer must act under pressure, and the value must be fair from the perspective of the seller, taking into account that the seller cannot keep the valued object,
- **investment value** expressed in money or another equivalent of the object value for a particular investor (owner), the valuation takes into account the individual requirements and expectations related to the valuation object. The fair market value, contrary to the investment value is not personified and is completely impartial,
- **internal value** of the valuation object is not conducted for the purpose of a particular transaction. During this valuation it is not taken into account who ordered it and who will receive it, it is based only on all information on the given object and external factors influencing its current and future economic and financial situation [5, p. 7].

In the case of the creative sector, in organisation valuation it is very important to take into account the so called goodwill. The term defines the value of a company which is an acquired value, the difference between its market value and the value of an organisation or enterprise [3, p. 45]. *Goodwill* means:

- 1) value of an enterprise in the form of inventory, reputation and acquired relations [6, p. 315],
- 2) trading privileges of a company which is a successor of a well prospering economic entity [7].

Goodwill is the value of all intangible and legal assets which were not valued in the balance sheet of a given enterprise. The value of *goodwill* is calculated as the difference between the company purchase price and its value resulting from the calculations of the accounting department. It is hard to distinguish these components, however, it is not always necessary to do so. They encompass the following:

- *know-how*,
- company reputation,
- established processes and business models,
- lists of clients,
- business contracts,
- product projects,
- market access.

Hence *goodwill* may become a certain ‘prosthesis’ of the set of values which with time can be gradually transferred to independent balance sheet items [3, p. 70]. The definition of goodwill formed in 1810 states that the value of a company to be sold is nothing else but the probability that this company’s existing clients will return to the same place when the previous shop owner no longer owns it.

According to an even older definition of company value, a competitive advantage can be a source of value. Business value results from a comparison of business opportunities with other businesses or the assumed possibility to generate profits thanks to the ‘current value of predicted, extraordinary benefits of an enterprise’ [3, p. 78]. The value of goodwill is specified in Polish legislation in the accounting act and in the European legislation in the International Accounting Standards.

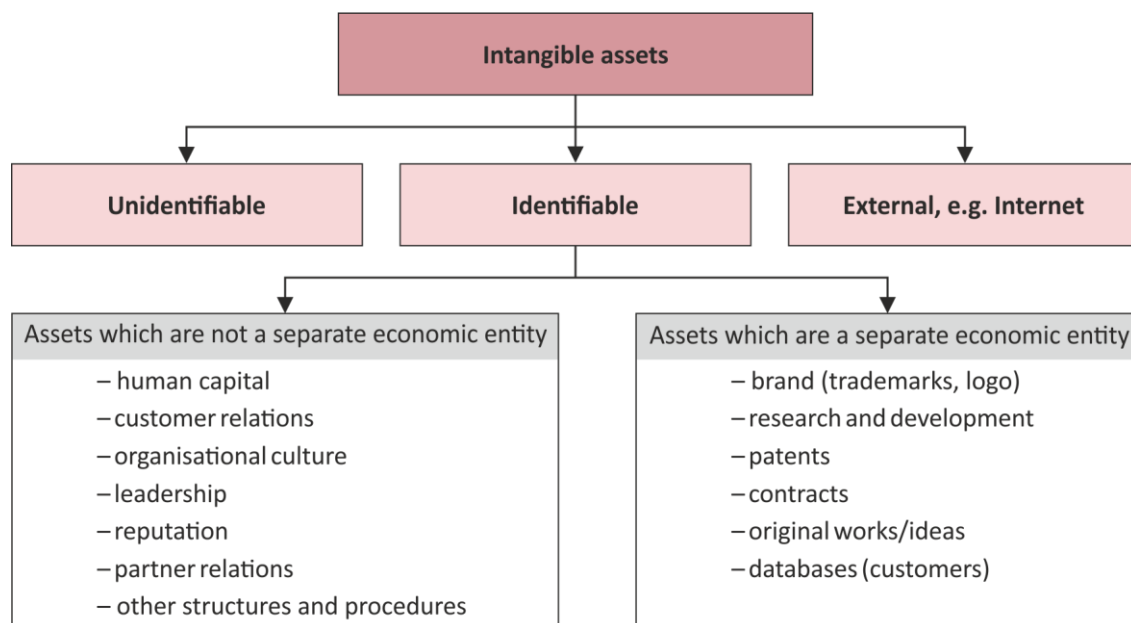


Fig. 2. Division of intangible assets
 Source: [8, p. 44].

The determination of goodwill components involves assigning particular economic benefits to a given component. The assets belonging to the group with a separate economic entity can be sold individually. The assets which are not a separate economic entity are usually valued using indirect methods, i.e. allocation of the general economic value to particular factors employing a relevant division method. These assets

cannot be individually sold and their valuation is used to improve internal management or as an element of the whole intellectual property capital [2, p. 29].

The construction of the enterprise of the future, i.e. an organisation serving its environment is based on three basic values:

- trust,
- professionalism,
- innovativeness [9].

The value of an organisation in the creative sector results from the knowledge of its employees and their potential in the creation of new products and services, and also the value of relations they make. In this sector knowledge is less trained and learned in comparison with other sectors of high value services. To a higher degree this knowledge is the effect of their talents and creativity. This is also a sector in which the value of knowledge can be very high due to its uniqueness and a lack of direct competition.

The basis of building company value is based on the ageless code including:

- 1) righteousness: honesty, dutifulness, truthfulness,
- 2) competence: knowledge, qualifications, persuasion skills,
- 3) consistency: credibility, predictability and common sense,
- 4) loyalty: possibility to rely on another person,
- 5) openness [10, p. 499].

The value of an organisation is created for stakeholders who could be:

- 1) shareholders interested in outstanding return on investment,
- 2) clients looking for relations taking the form of usability and quality; focusing on clients and their value influences future perspectives and development directions; it also allows to build capital relations, including suppliers, staff and creditors,
- 3) employees interested in job security, compensation, improvement of qualifications and professional skills, social security benefits,
- 4) suppliers,
- 5) creditors,
- 6) local community,
- 7) central authorities.

Each of the above listed stakeholders can benefit from the increase in company value and as a result can pursue their goals and maximise their value.

The system of relations should be built as a network of mutual connections ensuring benefits for all these groups. The domination of only one of the groups may hamper the increase in company value and also it is a short-lived advantage [11, p. 42].

2. Values and business models

S. Szultka lists three groups which generate business value. These are financial, marketing and intangible issues. They are presented in Table 1.

Table 1. Types of value generators

Value generators		
Financial	Marketing	Intangible
<ul style="list-style-type: none"> – sales increase >10% – increase in operating profit margin – tax rate maintained at the same level – working capital – increase smaller than sales increase – creation of fixed assets with positive IRR – decreasing average weighted counter capital – extension of periodical value increase 	<ul style="list-style-type: none"> – gaining new clients – maintaining existing clients – building new distribution channels – growth internationalisation – beneficial alliances and takeovers – winning new markets 	<ul style="list-style-type: none"> – intellectual capital – innovation related abilities – efficiency of internal organs and processes – brand strengthening – logistic structure – creation and development of internal culture – communication, building trust and social reputation

Source: [11, p. 42].

The business model which is currently of one of the key factors influencing business value should be a unique combination of resources oriented around the value chain in the sector value network. The awareness of company ability to create value results directly from the characteristics of the business model it uses [4]. The business value generated by a business model is characterised by a defined lifecycle and is inseparable from company ability to deliver required products and services to the market. The business model can be efficient or not. The following factors have been determined to characterise efficient and inefficient business models:

1. Proposed value for a customer is depreciated.
2. Competitive business models eliminate existing solutions from the market.
3. Large players increase their market share.
4. The management does not have sufficient charisma to compete.
5. The organisation loses its innovative abilities.
6. Employees do not understand company strategy or do not identify with it.
7. The organisation does not have any analytical intelligence so it cannot perceive and understand multidimensional phenomena.
8. The organisation has difficulty in understanding internal and external changes.
9. No creative thinking among managers [4, p. 103].

An efficient business model will be characterised by values contrary to the proposed factors. It should be noted that the value created by the business model is characterised by a specific life cycle. The value should be created in a continuous manner because this, combined with the satisfaction of all groups of stakeholders, will guarantee business success. Thus, it is necessary to adjust the decision making mode to the expectations of stakeholders; and the reconfiguration of model components should be used to refine the whole model so as to increase value. Figure 3 presents the value carriers which make a map to be used to implement the value growth strategy.

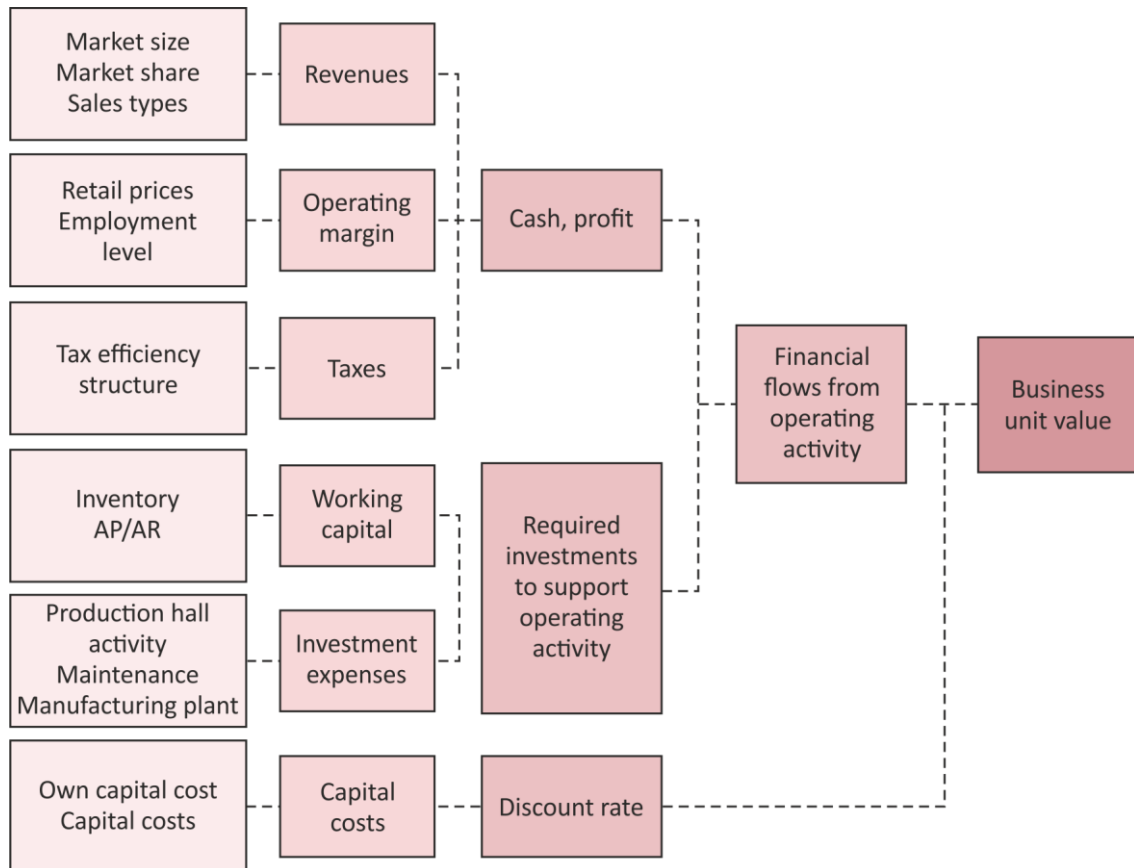


Fig. 3. Value carriers

Source: [4, s. 104, as in: 12, p. 67].

The presentation of how values are recaptured in the model shows how value is created for clients and how the organisation is rewarded for proving this value. Traditional enterprises gained value by selling products or by obtaining a payment for provided services. When the way of thinking focuses on products, recapturing values is limited to only traditional methods.

Currently companies use a much more extensive repertoire of mechanisms for value recapturing, e.g. by extending a value chain, offering complementary products or sharing values. Recapturing values is related to the methods of making profits. The value carriers presented in Figure 3. Can be confronted with, e.g. the earlier described 9-element model developed by A. Osterwalder and hence develop an interdisciplinary model for value creation.

3. Use of business models in innovation management

The concept of business models is eliminating business plans which were characterised by high complexity and the necessity to make labour inputs in a longer period of time. The concept of business modelling through creative group work significantly reduced this process also contributing the possibility to compare numerous views.

An enterprise can adopt a number of strategies to implement innovations. The definition of the types of innovative strategies for companies may differ depending on the adopted criteria. Innovative strategies can be divided into two groups: intraversive and extraversive strategies. The former comprise [13]:

- product attractiveness strategies, market share strengthening,
- product strategies, essential especially from the perspective of the added value,
- human capital and capital resources productivity strategies (involved resources, the so called resource development vector).

The latter comprise the following strategies:

- offensive strategies which refer to entities holding a special position in the market resulting from their competitive advantage (priority in using the innovative factor sources),
- defensive strategies related to market leaders protecting their position by attempts to make it even stronger,
- counteroffensive strategies leading to the modification and development of products to extend their lifecycle, develop ‘hybrids’ to combine existing elements with new technologies, reaching higher sales levels in comparison with competition or the financial exhaustion of competitors.

Regardless of the adopted strategy, it is necessary to select tools which will help to achieve set goals. This is exactly what is facilitated by the canvas of a business model which is made of nine areas [14]:

- customer segments (various groups of people and organisations that are targeted by business activity),
- value proposal (what is offered to customers, value, i.e. the collection of products/services which are important for a customer and distinguish a given product in comparison with competitive offers),
- channels (ways of delivering the value proposal),
- relations with customers (characteristics of relations made with customers during the delivery of the value proposal),
- revenue streams (specification how a product or service will earn money),
- key resources (necessary for company functioning, e.g. tangible, non-tangible ones),
- key activities (essential for the creation of a specific value proposal and offering it to clients),
- key partners (cooperating companies and organisations),
- cost structure (all expenses made in connection with the functioning of a business model).

The development of the business by all company employees responsible for innovations in the company may be very helpful in various respects. First of all it will support strategic thinking about both clients’ needs and the offered solution, it will also allow to cooperate, achieve the synergy effect and define the essential aspects of innovation development related to revenues and generated costs.

The development of the business model also has some advantages in terms of the time necessary to build his model. The business model canvas is relatively easy to use and it also allows to outline various solution scenarios depending on clients' needs and the changing environment. Hence, it allows to quickly respond to the dynamic challenges of a changing business environment.

Conclusions

The concept of business modelling plays a significant role in the creation of business value. It can be observed that there are numerous possibilities of combining modelling with the ways of creating value, moreover modelling is a part of the concept facilitating innovation implementation management. There is a number innovation implementation models, however, business practice shows that they are hardly ever used especially in small enterprises. The development of business models can support an enterprise in the development of pro-innovative orientation.

Acknowledgement

No acknowledgement and potential founding was reported by the authors.

Conflict of interests

All authors declared no conflict of interests.

Author contributions

All authors contributed to the interpretation of results and writing of the paper. All authors read and approved the final manuscript.

Ethical statement

The research complies with all national and international ethical requirements.

ORCID

Monika Tomczyk  <https://orcid.org/0000-0002-5326-1509>

Monika Spychalska-Wojtkiewicz  <https://orcid.org/0000-0002-9941-3459>

References

1. Miles RC. *Basic Business Appraisal*. New York: Jon Willey & Sons; 1984.
2. Urbanek G. *Kompetencje a wartosc przedsiebiorstwa zasoby niematerialne w nowej gospodarce*. Warszawa: Wolters Kulwer Polska; 2008.
3. Marcinkowska M. *Kształtowanie wartosci firmy*. Warszawa: Wydawnictwo Naukowe PWN; 2000.
4. Jablonski M. *Kształtowanie modeli biznesu w procesie kreacji wartosci przedsiebiorstw*. Warszawa: Difin; 2013.
5. Polska Federacja Stowarzyszen Rzeczoznawcow Majatkowych. *Powszechne Krajowe Zasady Wyceny. Nota Interpretacyjna nr 5*, [online]. Available at: http://pfsrm.pl/sites/default/files/NI_5.pdf [Accessed: 5 August 2016].

6. Stanislawski J. *Wielki słownik angielsko-polski z suplementem*. Warszawa: Wiedza Powszechna; 1983.
7. Hornby AS, Cowie AP. *Oxford advanced learner's dictionary of current English*. Oxford: Oxford University Press; 2000.
8. Urbanek G. *Wycena aktywów niematerialnych przedsiębiorstwa*. Warszawa: PWE; 2008.
9. Wawrzyniak B. *Przedsiębiorstwo jako organizacja służąca otoczeniu*. In: *Przedsiębiorstwo partnerskie*. Romanowska M, Trocki M. (eds.). Warszawa: Difin; 2002.
10. Robbins SP, DeCenzo DA. *Podstawy zarządzania*. Warszawa: PWE; 2002.
11. Szablewski S, Tuzinek R. *Wycena i zarządzanie wartością organizacji*. Warszawa: Poltext; 2007.
12. Martin JD, Petty JW, Wallance JS, *Value based management with Corporate social Responsibility*. New York: Oxford University Press; 2009.
13. Janasz W. *Strategie przedsiębiorstw innowacyjnych*. Studia i Prace Wydziału Nauk Ekonomicznych i Zarządzania. 2011;21, [online]. Available at: http://www.wneiz.pl/nauka_wneiz/sip/sip21-2011/SiP-21-4.pdf [Accessed: 2 May 2017].
14. Tomaszewski T. *Business Model Canvas – szablon modelu biznesowego*, [online]. Available at: <https://productvision.pl/2014/business-model-canvas-szablon-modelu-biznesowego/> [Accessed: 2 May 2017].

Biographical notes

Monika Tomczyk – Ph.D. in Economic Sciences, university lecturer, Head of the Szczecin Culture Incubator.

Monika Spychalska-Wojtkiewicz – Ph.D. in Economic Sciences, university lecturer, her scientific interest encompass the implementation of innovations in SME enterprises, innovation diffusions and non-technological innovation management. An expert in quality and quantity research, for many years involved in domestic and international projects. A certified project manager IPMA (International Project Management Association).

Modele biznesowe a innowacyjność i wartość organizacji

STRESZCZENIE

Modele biznesowe stanowią narzędzie, które w stosunkowo łatwy sposób pozwalają wspierać zarządzanie innowacjami i wartością w organizacji. Artykuł wskazuje na rolę oraz miejsce modeli biznesowych w nowoczesnym zarządzaniu przedsiębiorstwem.

SŁOWA KLUCZOWE

modele biznesowe, innowacje, innowacje nietechnologiczne, wartość organizacji

How to cite this paper

Tomczyk M, Spychalska-Wojtkiewicz M. *Business models and business innovativeness and goodwill*. Scientific Journal of the Military University of Land Forces. 2019;51; 1(191):155-64.

DOI: <http://dx.doi.org/10.5604/01.3001.0013.2406>



This work is licensed under the Creative Commons Attribution International License (CC BY).

<http://creativecommons.org/licenses/by/4.0/>