DEVELOPING BUSINESS ACUMEN

The Purpose of Business

The following are the different models that define the business purpose:

Naert's Model

Philippe Naert, dean of the Antwerp Management School in Belgium, believes that value creation is the purpose of business. He criticizes the shareholder model (a theory that focuses on maximizing financial returns on investments with zero regard for customers and employees). Naert's model, on the contrary, proposes that economic and societal values can be pursued simultaneously (Erisman & Gautschi, 2015).

Companies create economic value by developing, producing, and delivering goods and services. Doing so maximizes value or the difference between benefits and costs. In creating value, companies are typically part of a larger value chain.

Modern companies create economic and societal values while establishing a win-win relationship between business and society. Societal value has many dimensions. In addition to reducing the usage of scarce natural resources or environmental damage, there are issues such as safety, health, poverty, education, gender equality, multicultural society, etc. Companies achieve higher productivity in emerging markets if they facilitate access to basic health care and education. A healthier workforce leads to lower absenteeism at work, and access to education improves safety and reduces the incidence of work-related accidents.

Developing energy-saving lamps is good for society because it reduces energy consumption. It is suitable for the consumer whose electricity charges decrease. It is good for the producing company because it increases sales in new markets with low electricity and buying power.

Van Duzer's Model

Jeff Van Duzer, dean of the School of Business and Economics at Seattle Pacific University, shares some commonalities with Naert in his criticism of the shareholder model.

Van Duzer proposes that the purpose of business is two (2)-fold:

- **To serve customers by providing goods and services that promote human flourishing.** The focus is primarily on customers and the broader community. It highlights the role that business plays in bringing products to markets.
- **To serve employees by providing opportunities for meaningful and creative work.** It tends to focus on employees and vendors. Businesses create jobs that allow people (through their labor) to sustain their lives. Intentionally, it encourages the development of human potential and extends far beyond mere material sustenance.

However, in contrast with Naert's Model, Duzer suggests that profit should be best viewed as a means to serve customers and employees. Therefore, the pursuit of profit is necessary for business but is not the purpose of business.

> *"The purpose of a business, in other words, is not to make a profit, full stop. It is to make a profit so the business can do something more or better." – Jeff Van Duzer*

Duzer sees profit as the means of attracting a business's capital to pursue its first-order purpose. Under the traditional approach, concern for the employees and integrity with customers are cast aside from the goal of profit maximization. In Van Duzer's Model, generating a reasonable return on shareholders' investments allows the business to do what it is supposed to do in the first instance: provide food, meaningful jobs, and beneficial products and services. Profit becomes the means; jobs and products become the ends.

Parikh's Model

Indira Parikh, president of the Foundation for Liberal and Management Education (FLAME), argues that the ancient wisdom of Hindu scriptures can be appropriated to business practices.

- **Bhagavad Gita**. It asserts that people should focus on their thoughts and actions rather than the outcomes of those actions. This ancient text describes the concepts of emotional intelligence and servant leadership and is the foundation for a new terminology – *karma capitalism*. Where once corporate philanthropy was an obligation, today, it is viewed as a competitive advantage for attracting and retaining top talent.
    1. *Greed is bad.* Entrepreneurs should never engage in action only for the desire of rewards. Acting on worldly desires leads to failure. Do well, and good things will come.
    2. *Be fair.* Enlightened leaders are compassionate and selfless. "They treat everyone as equals." Followers will rally around them and follow their example.
    3. *Act rather than react.* A leader's actions today can become the "karma" that influences their status tomorrow. Leaders accomplish "excellence by taking action."
    4. *Seek higher consciousness.* Leaders should view problems within their larger contexts. Show sensitivity to multiple stakeholders, including shareholders, employees, partners, and neighbors.

- **Dharma.** Dr. Athreya, a renowned management guru, has highlighted some of the core concepts of Dharma (natural law) as enshrined in the Indian Shastras (timeless principles). Generally speaking, Dharma can be understood as a righteous duty or the right path to uphold the family and the organizational and social fabric.
  The main principles of Dharma that apply to business include the following:
    1. **Loka Sangraha** *(Public Good)* – the practice of seeking one's gains and catering to the welfare of others. It primarily reflects all the stakeholders.
    2. **Kausalam** *(Efficacy)* – sensible use of resources for future generations. It reflects concern for ecology as well as for stakeholders.
    3. **Vividhta** *(Innovation)* – beyond survival, the business must be the engine of innovation, constantly seeking more effective solutions to meet its economic and social expectations.
    4. **Jigyasa** *(Learning)* – change and continuity coexist. Corporate governance must keep learning from the feedback loop of society and through internal processes of questioning, challenging, debating, and training.

Business Models

A business model is embedded in a firm's business plan, income statements, and cash flow projections. It is a conceptual, rather than a financial, framework. A business model makes implicit assumptions about customers, the behavior of revenues and costs, the changing nature of user needs, and competitor responses. It outlines the business logic required to earn a profit (if one is available to be earned) and, once adopted, defines the way the enterprise "goes to market" (Teece, 2010).

A business model describes how a company creates and captures value. The model's features define the customer value proposition and the pricing mechanism, indicate how the company will organize itself and whom it will partner with to produce value, and specify how it will structure its supply chain. A business model is a system whose various features determine the company's success.

The Six (6) Considerations

The following are the primary considerations in developing a business model:

1. *A more personalized product or service.* Many new models offer products or services tailored to customers' individual and immediate needs. Companies often leverage technology to achieve this at competitive prices. Millennials are particularly attracted to the idea of customization. Consider customized merchandise such as shirts, mugs, name tags, etc.
2. *A closed-loop process.* Many models replace a linear consumption process (in which products are made, used, and disposed of) with a closed loop, in which used products are recycled. This shift reduces overall resource costs. Consider companies selling bottled beverages. Instead of disposing of the bottles after consumption, they are returned for reuse or recycling.
3. *Asset sharing.* Some innovations succeed because they enable the sharing of costly assets. For example, Airbnb allows homeowners to share them with travelers, and Uber shares assets with car owners. Sometimes, assets may be shared across a supply chain. The sharing typically happens using two (2)-sided online marketplaces that unlock value for both sides. An example is a landowner who gets money from renting a spare room, and the renter gets a cheaper and nicer place to stay. Sharing also reduces entry barriers to many industries because an entrant need not own the assets in question; it can merely act as an intermediary.
4. *Usage-based pricing.* Some models charge customers when they use the product or service rather than requiring them to buy something outright. The customers benefit because they incur costs only as offerings generate value; the company benefits because the number of customers is likely to grow. For instance, customers are billed for credit cards at the end of each month only if they use the service.
5. *A more collaborative ecosystem.* Some innovations are successful because a new technology improves the relationship with supply chain partners and helps allocate business risks more appropriately, making cost reductions possible. For example, Proctor & Gamble uses the "connect and develop" model through external networks (suppliers, competitors, scientists, entrepreneurs, etc.) to crowdsource new ideas. This model helps the firm improve, scale up, and market new products and technologies (Smith, 2015).
6. *An agile and adaptive organization.* Innovators sometimes use technology to move away from traditional hierarchical decision-making models to make decisions that better reflect market needs and allow real-time adaptation. The result is often more significant value for the customer at less cost to the company. Amazon understands, embraces, and anticipates change, making it agile and adaptive to changing business conditions and customer requirements.

References:

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