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The value-based paradigm and economization of company strategy and business models

The constantly increasing growth rate of business processes, taking place in companies, forces them to use a new approach not only to building their business models and strategies, but first of all to achieving appropriate returns.

The strategy and business model as two key ontological entities in business management play a different role now, compared to their application a few years ago. They act as a strategic navigator responding to any changes inside and outside the company. Abilities of the behavioural reaction are expected characteristics of managers who, thanks to their competencies and risk acceptance, may create company value in the long and short term, through strategies and business models. Therefore, the ability to transform the designed strategy and business model into the company performance, is gaining special importance in the era of so-called endless crisis. At the same time, in management sciences continuous changes are taking place in terms of the emergence of new paradigms. There is also a continuous discussion about which paradigm currently shapes the image of modern management, however, in a state of constant multi-paradigms.

There are supporters and opponents of the first and the second approach. One of the key paradigms strongly affecting the business world today, and the development of management science, is the value-based paradigm. It focuses on the goal of a company such as an increase in company value. In this approach, tools for its implementation, inter alia, the business model and strategy of the company, play an important role in this process. At this point, one must ask how this can be achieved? In the author's opinion, economization of the business model and strategy may be a determinant here, that is imposing economic assumptions on these entities, expressed through financial drivers of company value. It aims to continuously receive the economic rent by a company, through a permanent appropriation of value.

The aim of this paper is to discuss the place and role of strategy and business models economization, using the value-based paradigmness. The author argues that business models and strategies currently designed should generate specific measurable financial results, which can be parameterized at every stage of their implementation. Therefore, the applicability of the business model and strategy will be expressed in economic measures, enabling a value increase at every stage of business development.

The value-based paradigm in company strategic management

A paradigm should be understood as a generally accepted standard of science appropriate for a given period, accepted by the scientific community of the time, together with underlying philosophical assumptions

[Kowalczewski, 2008]. The theory of paradigms was proposed by T.S. Kuhn, who presented its outline in his book *The Structure of Scientific Revolutions*, whose first edition was published in 1962 [Kuhn, 2009]. In 1977 Kuhn expanded it in the next book about the essence of paradigms, *The Essentials Tension. Selected Studies in Scientific Tradition and Change*. According to Kuhn, a manifestation of the revolution is paradigm change, replacing the *old "paradigm" with a new one* [Kuhn, 1985]. When analyzing Kuhn's approach to understanding paradigms, it is also worth quoting a statement made by T. Hatch about whether our discipline has a paradigm, and whether it is one paradigm [Hatch, 2002]?

Or maybe you should look for a so-called megaparadigm, which may be supported by other paradigms supporting it within the approach based on multiparadigmness? According to Ł. Sułkowski, a strategy of "epistemological pluralism", close to the "hour 10 approach" by K. Weick, assumes the possibility of combining approaches drawn from different paradigms, but only if coherent cognitive outcomes are pursued. A circular interpretation of the research process is also suggested [Weick, 1979]. Thus, the concepts of functionalism may be used (hypothesis, verification or falsification) and interpretative concepts (meaning, interpretation), and even critical ones, for example false consciousness. The research methodology aims to lead to complementarity (methodological triangulation) and assumes the possibility of combining quantitative and qualitative methods, as well as the methods involved. A strategy of "epistemological eclecticism" implies, like pluralism, the possibility of combining theories and methods drawn from various paradigms [Sułkowski, 2012, p. 102].

S. Sudoł believes that the following criteria should be taken into account when selecting theorems to the paradigms of management sciences:

a) compliance with the reality in organizations;
b) the degree of generality of theorems, which makes it possible to refer them to all, or at least a large group of organizations;
c) relevance (importance for the functioning and development of the organization [Sudoł, 2014, p. 25].

This is now widely discussed in management sciences.

However, directing discussion at premises of a value-based paradigm, it is also necessary to ask an open question, whether the value-based paradigm can aspire to be a megaparadigm, or whether it is one of the partial paradigms within the framework of the so-called pyramid of hierarchy and importance of paradigms? There is no clear answer to this question.

A. Jaki proves that the conditions of the emergence and development of the value-based management paradigm, and the changes that have occurred as a result in business management systems, encourage to emphasize the key determinants of the contemporary management reorientation, implied by a new paradigm. In particular, it must refer to:

- *value-based orientation of the various areas of business management (...),*
- *the creation and implementation of value-based management systems, based on the holistic approach to the management system,*
- *the creation and development of new applications of management and analytical solutions concerning the value-based paradigm of management (...),*
- *change in the paradigm of measuring the value of the company (...),*
- *the growing importance of the use of non-material resources as the creators of company value and the key determinants of its competitiveness* [Jaki, 2012, pp. 216-217].

A. Jaki [2011, p. 13] also claims that in this situation the value-based paradigm becomes a framework model, which sets the standard for value orientation (value-based orientation) as a new orientation in business management. This orientation can be regarded as one of the components of the results-driven orientation. This is because it emphasizes profit-making nature of the business and the consequent need to respect the principle of economy, as the basis for the company survival and development. The survival during the economic crisis now becomes a key task and even the duty of every company. This requires, however, a wide variety of resources. Evolution of the Resource-Based View concept related to the resource-based approach to strategic management, also outlined a new dimension of management towards company value.

The capital market values primarily the resource potential of the company, and the ability of these resources, to create value within the company, where these resources are located. A value-based paradigm strongly associated with the resource-based view determines the development of the financial management of the company. Skillful management of funds and rationality in their use become particularly important. It is when the financial paradigm is directed towards the value-based paradigm, where, for example, T. Copeland, T. Koller, J. Murrin highlight the maximum generation of free cash and the correct estimation of the WACC (weighted average cost of capital) [Copeland, 1994]. In the context of the value based paradigm, a concept of calculating economic value added EVA and MVA, the market value of the company, which was developed by G.B. Steward, is also an important [Steward, 1991]. However, appropriate instruments need to be used so that this value has an acceptable level. These include a strategy and business model.

Economization of company strategy

D. Jamali [2005, p. 109] defines new mechanisms of management in the current conditions of company operation. These are as follows:

- value added as a fundamental social duty of a company,
- quality as an essential requirement affecting competitiveness,
- responding to changes in the environment and customer needs,
- flexibility in communication and action,
- developing new ideas, using creativity and enthusiasm of employees,
- integration of the technology portfolio in order to gain a distinctive competitive advantage,
- building multifunctional and multidisciplinary teams.

These mechanisms can ensure appropriate company performance, maintaining its ability to make money. As the company performance has an economic dimension, the economization strategy becomes an important criterion for the achievement of the appropriate financial flows toward the continuous growth of the company value.

Looking at the definition of strategy and its evolution, one should remember that there are many approaches to defining strategy. Being cautious, the author presents 12 selected approaches to defining strategy in the evolutionary development of strategic management sciences:

1. A plan-based approach to strategy,
2. An evolutionary approach to strategy,
3. A positioning approach to strategy,
4. An approach to strategy based on the concept of core skills and competing on the basis of abilities,
5. Resource-based approach to strategy,
6. An approach based on the strategy of simple rules,
7. An approach based on real options,

8. Strategy based on the concept of a blue ocean,
9. An approach based on the entrepreneurship strategy,
10. A paradox-based approach,
11. A relational approach to strategy,
12. A network approach to strategy.

These examples of approaches determine the definition of strategy and its context. The company strategy is strongly correlated with the strategic thinking.

J.M. Liedtka [1998, pp. 120-129] has defined five elements of strategic thinking:
1. Systems perspective,
2. Thinking in time,
3. Intelligent opportunism,
4. Intent focus,
5. Hypothesis driven.

In their cult book *Strategy Synthesis*, B. de Wit and R. Meyer [2007] state that competitive advantage can be gained only when the business system creates above-average value for customers. Therefore, above average "value offered" is an essential element of an effective business system. In addition, the company has to develop a unique range of products and reach out to their buyers. It must be able to effectively create value. The actions proposed by B. de Wit and R. Meyer consists of three components: the resource base, system of actions, and product offer.

In this place, the author highlights his own definition of strategy, taking into account the principles of the value-based paradigm. Strategy is an implemented, comprehensive system of creative mechanisms based on objectives, initiatives and projects, designed in correlation with the adopted business model, monitored through a multi-criterion set of indicators grouped in thematic, non-financial and financial measurement streams. Only the strategy designed in this way ensures the continuity of business, funded with cash from the market, and at the same time the long-term value of the company increases [Jabłoński, 2012].

Seeking the most appropriate definition of strategy in terms of its economization, is worth quoting the definition of E.H. Bowman [1973], who wrote already in 1973 that strategy is a continuous search for rent. This refers, of course, to economic rent understood as company profit over the cost of destined capital. Economization of strategy gives it an effectiveness dimension expressed in obtained, discounted cash flows following the implementation of various stages of strategy. Strategy effectiveness created appropriate, expected value of the company. The expected value of the company allows the continuity of business. The duration of the company in the market enables the ability to renew resources, generate financial streams and rates of return for company shareholders in the form of a financial dividend. C. Suszyński [2011] highlights the economization of strategy. In no way diminishing numerous popular and brilliant concepts of strategic management, it is worth noting that their economization is often a kind of "trial by fire", restoring natural properties of management, identical with the deeply hidden nature of the complex matter and issues that should be solved by company development management.

Economization of strategy will therefore be associated with:
- design and operationalization of strategy in economic terms,
- monitoring the implementation of strategic objectives and results of the strategy implementation in economic terms,
- seeking economic rent at every stage of the strategy implementation,
- managing by opportunities and taking advantage of emerging opportunities in economic terms,

- creating and selecting strategic material and non-material resources (including dynamic competencies, key skills and competencies), that create the highest value in economic terms,
- modeling strategy in terms of effective performance management.

Economization of the company business model

The perfect business model:

- draws a boundary around what is done,
- explains how to combine the internal processes with external requirements of customers and strategic objectives [Neely, 2007].

A business model is a conceptual and architectural implementation of business strategy and the basis for the introduction of business processes. The business model is an offer of company value to one or several segments of customers, as well as the architecture of the company and its network of partners, for creating value and relationship capital to generate profitable and sustainable streams of revenue [Osterwalder, 2002].

K. Obłój [2007, p. 63] presents the business model in the context of innovative strategies, saying that innovative strategies stem from neither flashes of genius, nor thorough analysis, but they usually result from the in-depth reflection on the existing business models, and the potential opportunities created by the market. The starting point of innovative strategies is in fact what already exists – the model of a hotel, shipyard, airlines, vodka factory and so on, dominant in the market. In order to transform it into a new model, it is necessary to consistently ask yourself three fundamental questions: what to take, what to add and what to change, in order to take advantage of new opportunities. The first starting point for innovation is taking a vital element from the existing business models – in such a way as to radically change either economy, or a business model.

According to B. Nogalski [2009, p. 7], a business model can be regarded as a developed, modern form of the organizational model of company management, in contrast to the traditional, classical form, and it can be presented as a structured idea of the desired directions of company development (its strategy) and determinants of this process. M.W. Johnson [2010, p. 22] defines the business model as a representation of how the company creates and delivers value for both the customer and company. According to M.W. Johnson, C.M. Christensen and H. Kagerman [2008], a business model consists of four overlapping elements which, taken together, create and deliver value. These include customer value proposition, profit formula, key resources and key processes. The business model is a reproduction, in a particular place, time and business space, of the structure of links of the factors that guarantee the fulfillment of the current internal and external needs of the stakeholders, which allows the company to currently gain competitive advantage, and which is the creation of a future basis for company growth and development, ensuring continuity of doing business. Such an understanding of the business model allows you to change strategic thinking which involves building competitive advantage through agile and flexible implementation of business decisions in a system *from the current business model today, to the business model tomorrow* [Jabłoński, 2008, p. 19].

A good business model should be characterized by long-term effectiveness. More often, however, we deal with models ensuring effectiveness in the short term. The company should use the model until it runs out of the value creation potential assumed in this model.

Then the company may:

- devise a new system for capturing profits in the sector,
- move the model to the places which have not been exploited in this way,
- move the model tested and obsolete in one sector to other sectors,
- redefine the sector [Niemczyk, Drzewiecki, 2006].

According to J. Niemczyk [2010], a business model is a mix of strategy, tactics, but also operational activity, being in a given period a key to success in a specific group of undertakings (businesses). According to S. Cyfert and K. Krzakiewicz [2011], a business model defines the logic of links between resources which are at the disposal of the organization, and the activities creating value for the broadly understood customers.

J. Rokita [2005, p. 27] defines a business model as a reflection of how to achieve the right business results expressed by the relationship of revenues, costs and profit within the organization. This specific approach to business organizations, which is defined as "a business model" corresponds directly with the so-called model of results determining the relationship between:

1. The sector structure due to the intensity of competition.
2. Behaviour of entrepreneurs, sector participants.
3. Economic results achieved by an organization, compared to its rivals.

A business model may, but need not be the basis and inspiration for defining strategies and preparing a strategic plan. However, a "shortcut" is also possible, that is direct, quick implementation of business concepts and testing it in practice. This approach is closer to the modern philosophy of management that values speed, flexibility and responsiveness more highly than careful preparation of activities. However, it is costly because we quickly become convicted of drawbacks of the concept (in real time), but also expensively, because we suffer all consequences of the mistakes made [Koźmiński, 2004].

When analyzing the presented definition of business models, one need to ask a question what economization of the business model is, and why it is implemented. Economization of the business model is constructing such a combination that will generate the maximum rate of return. Then the business model becomes a strategic resource for a company. This interpretation of the business model is highlighted by T. Falencikowski and B. Nogalski [2011]. In their opinion:

- a business model is a set of resources and skills,
- an organization builds a business model by configuring key resources and skills,
- a business model is the component of the company's resources, which is the first line of defense against imitation,
- there is a dynamic tension between the components of the business model. A special area of the tension is an axiomatic sequence – value planning– value creation (net value) – delivering value to the customer – attempts made by all players to capture the largest part of the value.

In this approach, the economization of business model may involve choosing such components, that will determine the growth of company value in all conditions, because the deterministic nature of matching key resources will be linked with positive feedback measured by economic rent maximization.

The economization of business model will, therefore, be associated with:

- selecting such components of the business model, which, by overlapping, will generate the maximum rate of return,

- making the business model operational in such a way that it provides a continuous ability to create value,
- monitoring its growth rate by means of value controlling mechanisms,
- shaping its integrity to produce results more quickly than its competitors,
- ensuring coherence of the business model towards its maximum efficiency in economic terms,
- searching such configurations of the business model, which will provide a platform for synergy with the strategy that, in this perspective, is a platform for achieving the assumed results.

Company value and its business model and strategy

When making the synthesis of the foregoing, the place and role of creating company value through having an effective business model and strategy should be emphasized. In business practice, it is very difficult. This is related to a multitude of interference changing or even eliminating the ability of the company to achieve acceptable results by means of the strategy and business model. So how can it be overcome? It seems that through permanent exchange of feedback between the strategy and business model to generate the economic rent.

Table 1 **Combination of value drivers according to A. Rappaport's model with the attributes of the business model and strategy affecting value drivers on the basis of a review of selected definitions of business models and strategy**

Value drivers according to A. Rappaport' s model	Attribute of the business model affecting value drivers	Attribute of the strategy affecting value drivers
Increase in sales	Value proposals Capturing value Logic of customer service Network of stakeholders Communication and distribution channels Growth factors Value network or ecosystem	Marketing strategy Marketing mix Leadership
Increase in profit	Selection of customers Productivity Price structure Business processes Technology	Cost strategy Alliances
Increase in fixed assets	Methodology of manufacturing processes Risk Infrastructure management	Investment strategy Protection of resources
Increase in current assets	Value proposals Value chain Structure and sources of funding Customer structure Cash streams	Financial strategy Strategic flexibility
Capital cost	Strategic resources Value chain Structure and sources of funding	Financial strategy Strategic control
Tax efficiency	Funding model Structure and sources of funding	Tax strategy
The duration of competitive advantage	Uniqueness Innovative products Matching Rational growth rate Key abilities Relationships Intellectual capital and knowledge Social capital Way of business development Distinguishing oneself from the competition Brand/Practical models Managerial competencies	Sector strategy Product strategy Strategy revival (Restructuring, revitalization) Expansion strategy Extending the boundaries of business

Source: own study.

One of such proposals is combining value drivers, according to A. Rappaport's model, with the attributes of the business model and strategy affecting value drivers, on the basis of a review of selected definitions of business models and strategy. Rappaport [1986] defined value drivers within the concept of value for shareholders and in his opinion, they include: sales growth rate, profit growth rate, fixed assets growth rate, current assets growth rate, cash ability to pay tax liabilities, cost of capital, the duration of competitive advantage.

The above attributes of the business model and strategy considered in the context of specific value drivers, can provide a platform necessary for the optimal design of the business model and strategy in terms of configuration. Finally, they can become a source of economization. This can be expressed in econometric terms, that is components of the business model and strategy are the independent variables, and the value drivers in their mutual configurations are consistent dependent variable, measured by growth rate of company value in the short and long-term perspective.

Conclusions

The company's ability to create value is a very difficult task. This difficulty arises not only from the complexity of the mechanisms involved in the dynamics of competition in the market, but also from the ability to achieve acceptable results. The company business model and its strategy are used for that. To present the issue in a holistic manner, such an approach is sought that would guarantee an acceptable level of company performance in every aspect. This performance can be achieved by economization of the strategy and business model, that is, equipping the ontological entities with the ability to generate cash flows discounted at every stage of the business model and the operationalization of strategy.

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