



Intellectual Capital for Communities in the Knowledge Economy Nations, Regions, Cities and Emerging Communities



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An Intellectual Capital View of Business Model Innovation

Dr Steve Pike
Prof Göran Roos

Intellectual Capital Services Ltd.,
London, UK

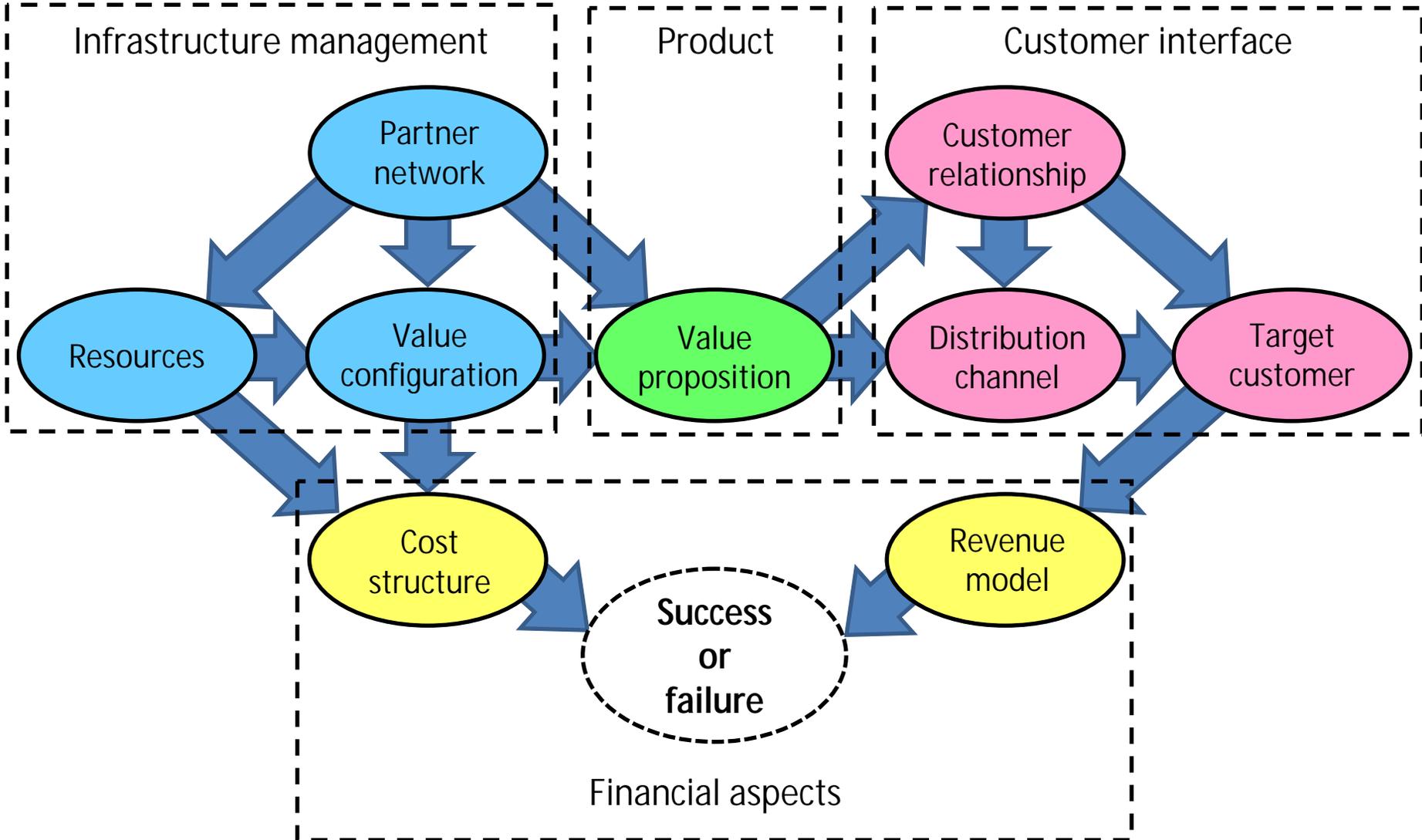
A useful definition

A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money. It is a description of the value a company offers the customer segments it serves and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams.

Types of business model

- (1) The abstract business model concept, which is a generic model of elements, components and relationships.
- (2) The operating business model, the one currently implemented and which (for our purposes) represent an instance of the generic business model.
- (3) The scenario business model which is virtual and does not yet exist in the real world. They can serve different ends like fostering innovation, simulating opportunities or acting as a guideline in change management and represent another instance of the generic business model.

The key elements of business modelling



THERE IS NO MAGIC METHOD FOR ASSEMBLING THE ELEMENTS OF A BUSINESS MODEL

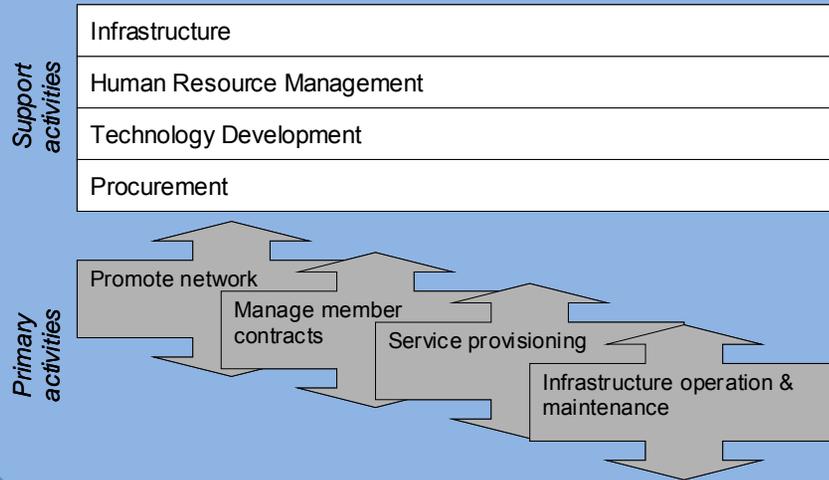
With 9 model elements, each with multiple alternatives on a continuous scale, the only method available is to:

1. Collect all the inputs and any associated evidence
2. Prioritise them in terms of attractiveness, robustness and ease of transition
3. Assemble into a candidate (or plural) models using the key elements model
4. Search for incoherence and conflicts, substituting problem elements with alternatives

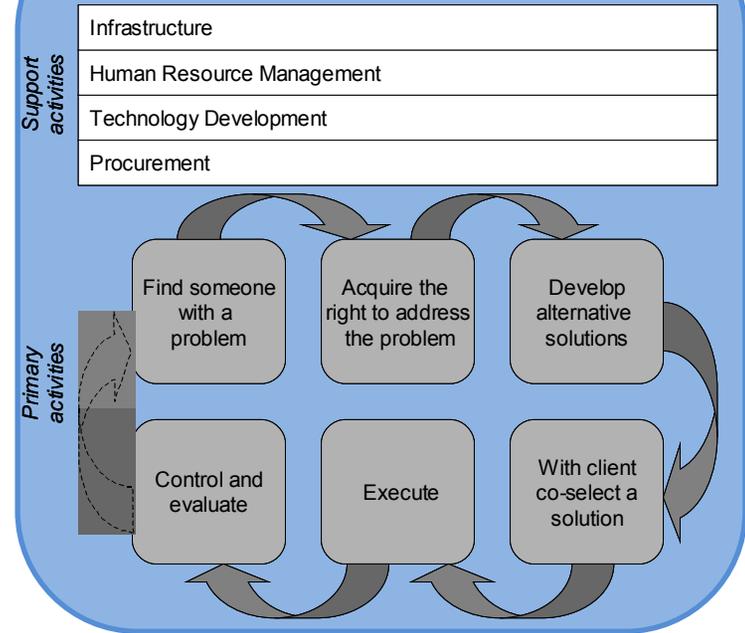
Value chain



Value network



Value shop

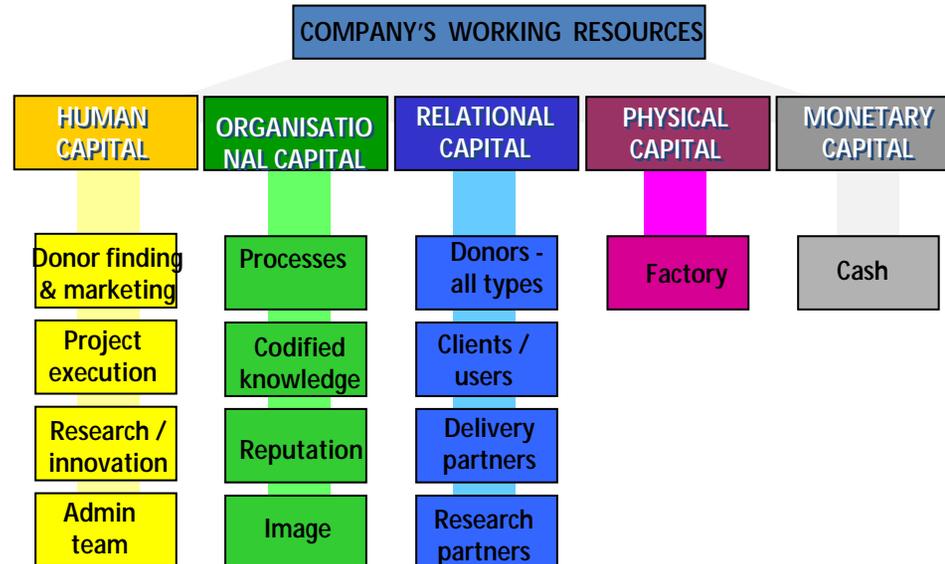


	Value Chain (production)	Value shop (problem solving)	Value Network (mediation)
Key capabilities	Mastery of all aspects of making products, moving through channels and marketing to clients and users.	Mastery of matching and mobilizing the right mix of resources needed to solve a specific problem.	Excelling at monitoring customers, clustering them, mediating and multiplying exchanges & finding new ones.
Result	The ultimate result is the delivered product.	The ultimate result is the full nature of the outcome.	The ultimate result is the richness and volume of the connections.
Best way to price	True costs must be fully understood and realistic prices must be set accordingly.	Prices paid are dependent on the value of the result to the customer rather than the cost.	The rights of usage or connection between customers guides the setting of prices.
Source of new value	Generated by optimising the time, cost and quality.	Generated by exploiting the new knowledge about the problems and their solutions.	Generated by the ability to find new clusters or usage patterns that add new possibilities.
Key question	How to: Find new customers, Increase efficiency, Increase chain responsiveness.	How to: Decide on the best solutions, Mobilise the right resources, Find and employ knowledge.	How to: Get the right people involved, Find the best users, Sell excess capacity.

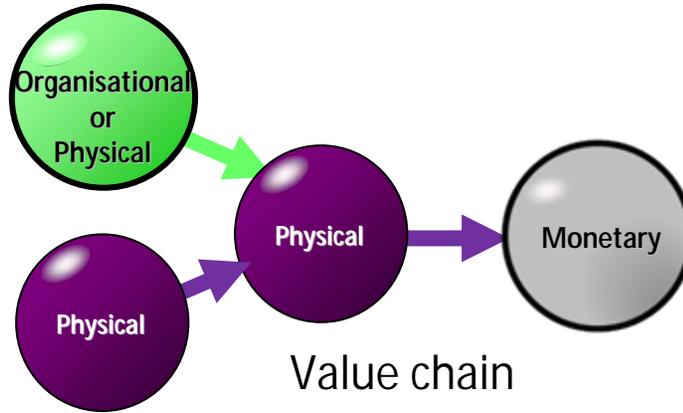
Resources determine what you can do:

	Owned	Controlled	Behaviour	Manipulations
Human resources	NO	YES	IMPROVES WITH USE	NON-ADDITIVE, CONSERVED
Organisational resources	YES	YES	COMPLEX / NEUTRAL	NON-ADDITIVE, CONSERVED
Relational resources	NO	NO	IMPROVES WITH USE	NON-ADDITIVE, CONSERVED
Physical resources	YES	YES	DEGRADES WITH USE	ADDITIVE, DEGRADED
Monetary resources	YES	YES	DISAPPEARS WITH USE	ADDITIVE, DISBURSED

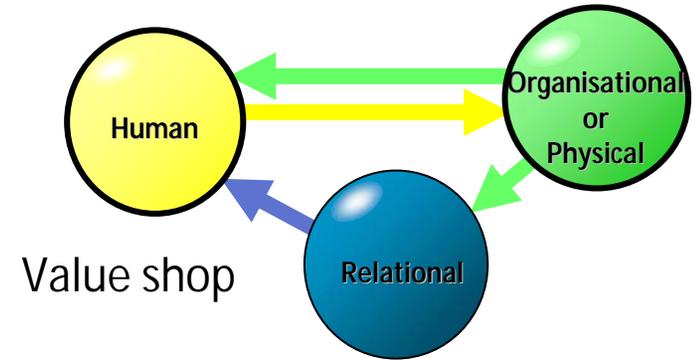
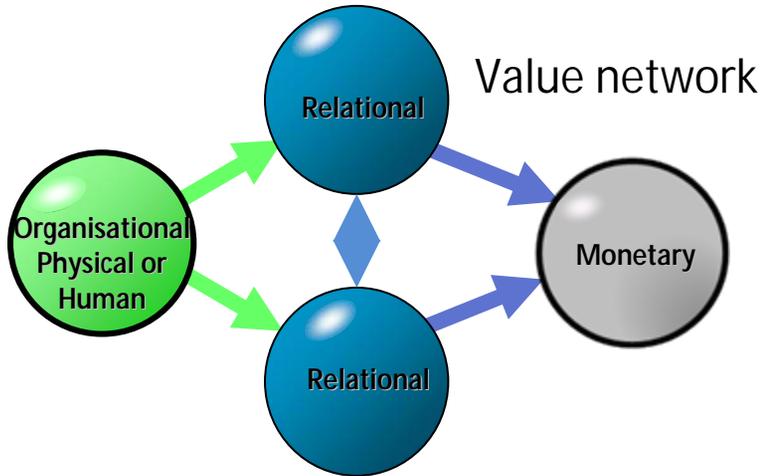
Resources have different characteristics and are usually depicted in a distinction tree.



Resources - IC Navigators



Navigators are a visual picture showing the critical resources and transformations according to the value logic. Properly analysed and in more detail, it indicates inefficiency and ineffectiveness.



What is an advanced methodology ?

Until now, all we had was:

- Direct Intellectual Capital methods (DIC).
- Market Capitalization Methods (MCM).
- Return on Assets methods (ROA).
- Scorecard Methods (SC).

But none showed causal linkage or any detailed valuation and none could predict, they were simple accounting approaches.

This advanced methodology:

- Explicitly links IC resources to revenue generation and value generation
- Explicitly links IC resources to costs
- Provides an IC-based framework for all company activities such as HR, KM, CRM, Innovation, investment etc
- Provides an analytic (forensic) and strategic evaluation capability
- Moves subjective opinion to a lower level

Although it now explains accounts and the sources of wealth, IC is still not “on the balance sheet”.

The focus of the analysis is value

The value of the i^{th} IC resource is given by :

$$V_i = f (Qa_i, Qq_i, I_i)$$

Where Qa is the relative Quantity of the resource,
 Qq is the relative Quality of the resource (after the manner of Barney) and
 I_i is the importance of the resource.

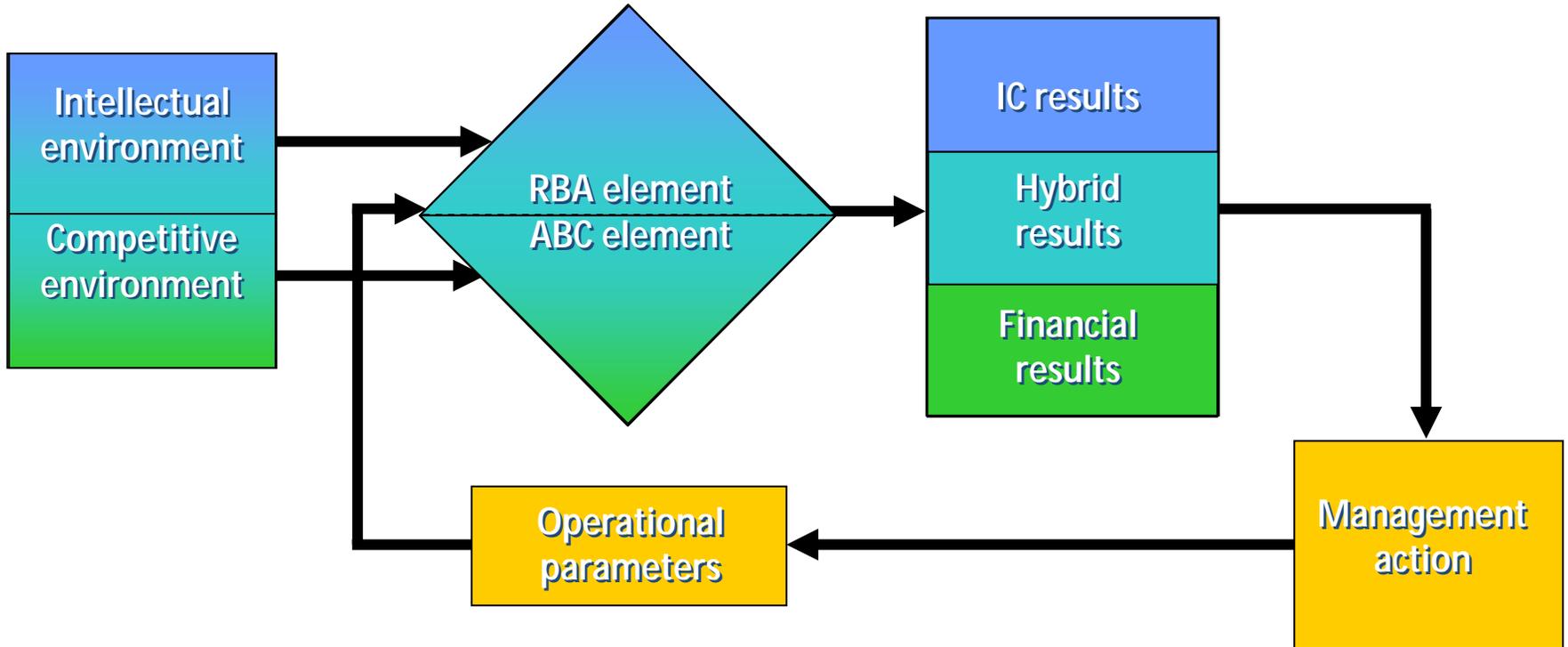
In an activity, a , the resource matrix $\{Sa\}$ transforms to other resources $\{Pa\}$ according to a transform operator, $\{Ma\}$. The order of $\{Sa\}$, $\{Pa\}$ and $\{Ma\}$ is the same as the number of resources and the elements Sa_{ij} and Pa_{ij} are determined by the value equation above.

$$\{Ma\} = \frac{\{Cofac(Sa)^T\} \{Pa\}}{|Sa|}$$

The IC Navigator maps and other non-financial analyses are calculated from the master navigator matrix $\{N\}$ whose elements, n_{ij} , are given by:

$$n_{ij} = \sum_{a=1,A} m_{a ij}$$

Basic model structure



Two big questions ...

1. Will the new model be profitable ?
2. Will the new model be robust ?

Consider the changes undertaken by a professional services company

Before business model change

Selling standard offerings such as balance scorecard.

Competing on price.

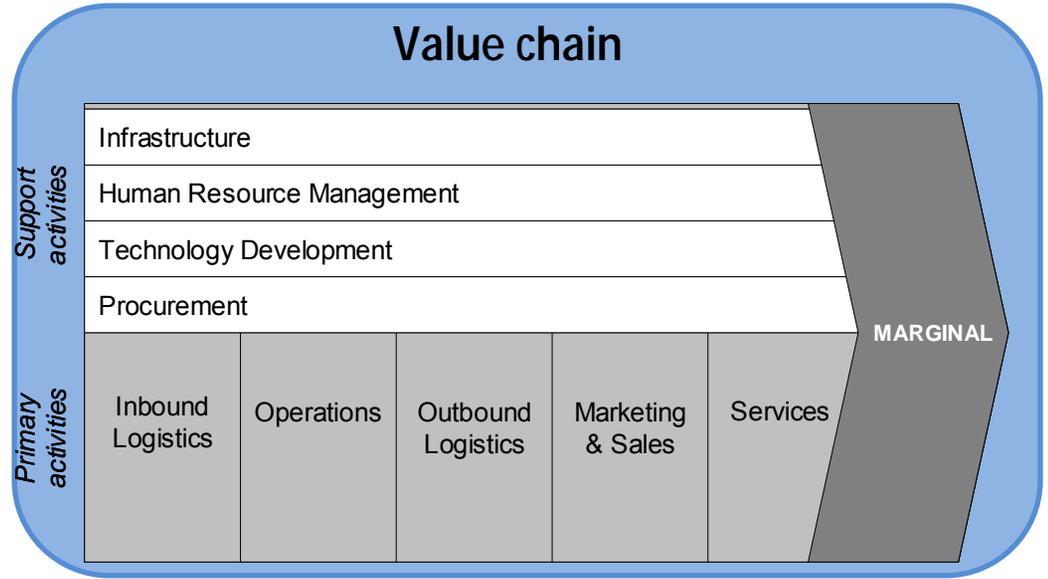
Little technical innovation.

After business model change

Bespoke offerings based largely on proprietary knowledge.

Competing on reputation.

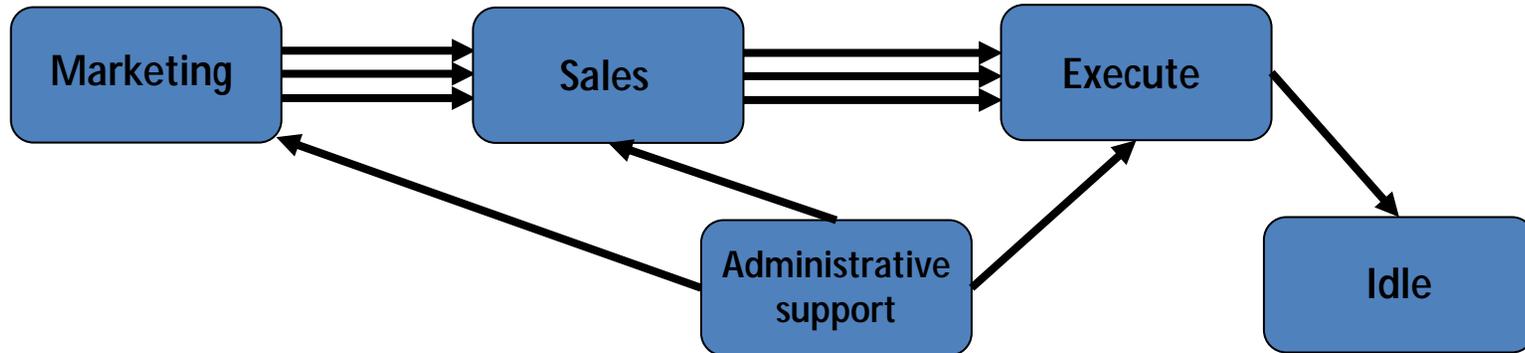
Technical innovation and publication is mandatory



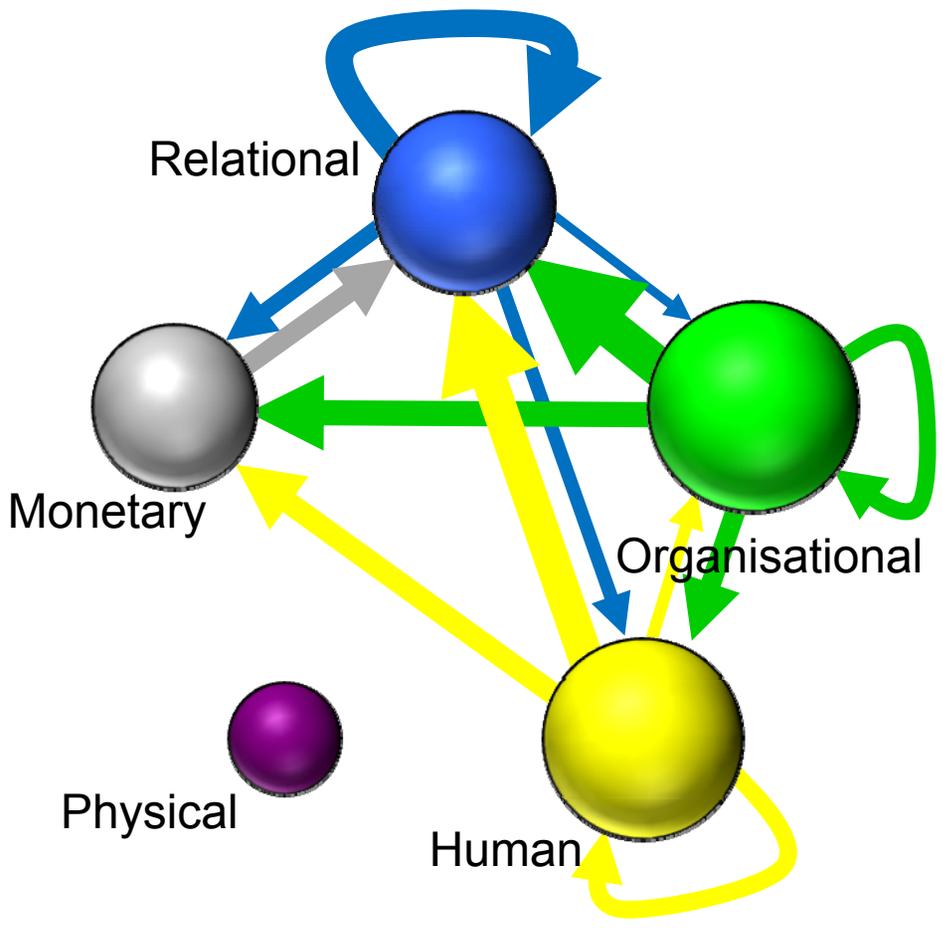
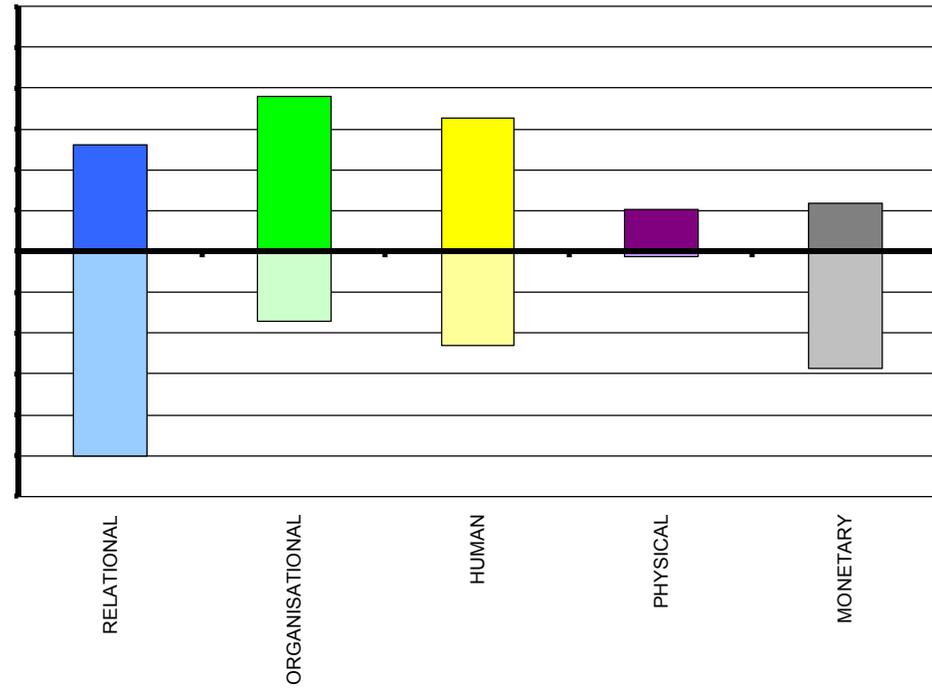
Source: Stabel, . B., Fjeldstad,Ø. D.: Configuring Value for Competitive Advantage: On chains, shops, and networks, SMJ, Vol 19, No 5, 1998

Standard value chain

Company value chain

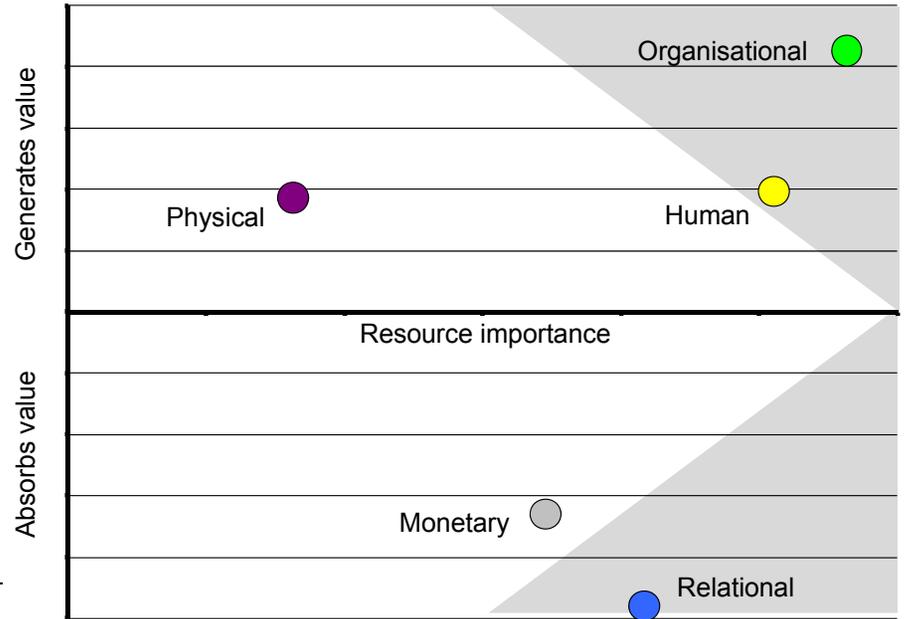
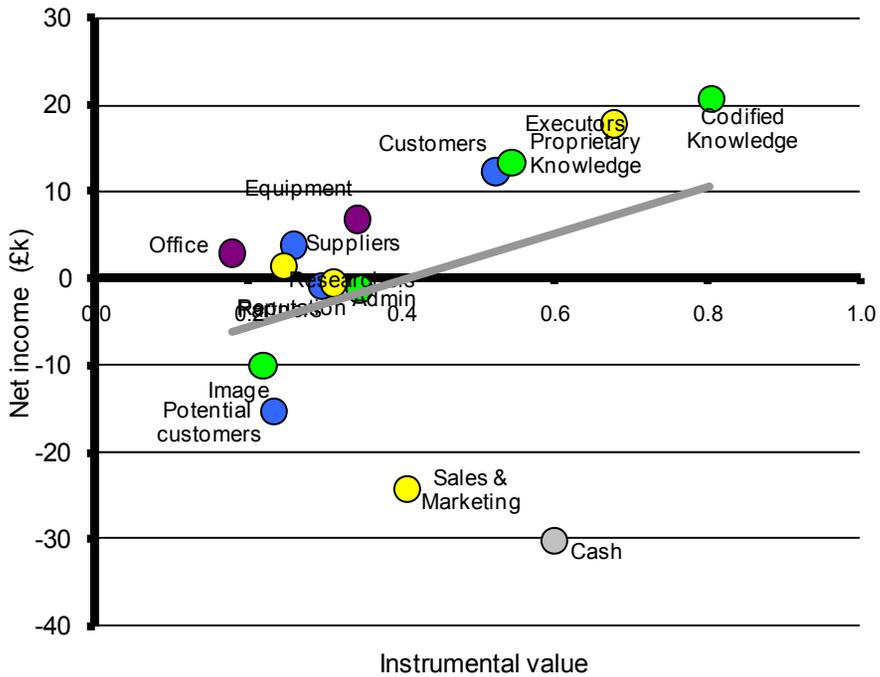


Company's resources, their use and outcome



	End 2004	End 2005
Gross income	1000	995
Cost of execution	309	308
Net income	691	687
	0	
Salaries	430	430
Suppliers	169	169
Other	108	108
Gross profit	(39)	(16)
Tax and exceptionals	0	0
Dividends	0	0
Net profit	(39)	(16)

Further analysis – further problems

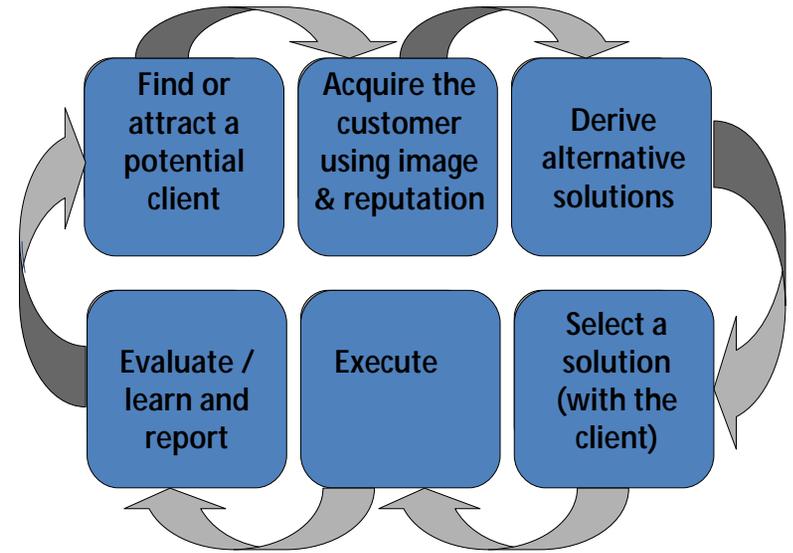


The new business model

Support activities

Infrastructure
Human Resource Management
Technology Development
Procurement

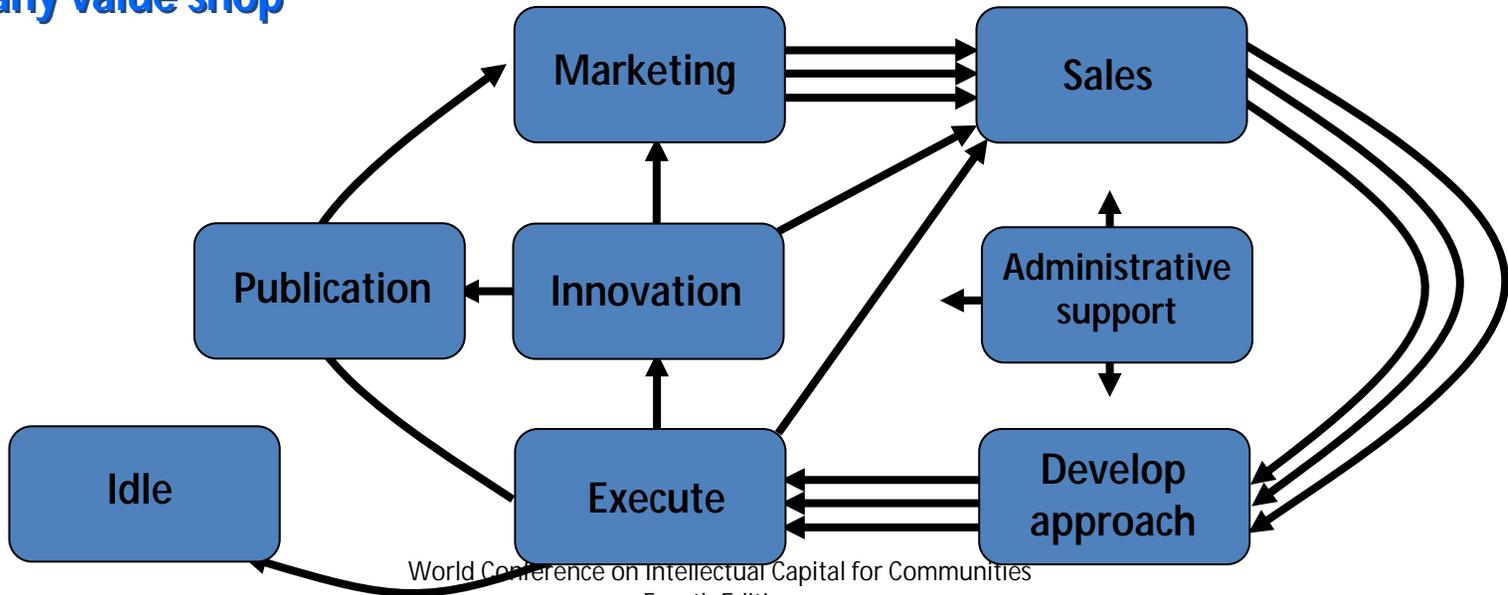
Primary activities

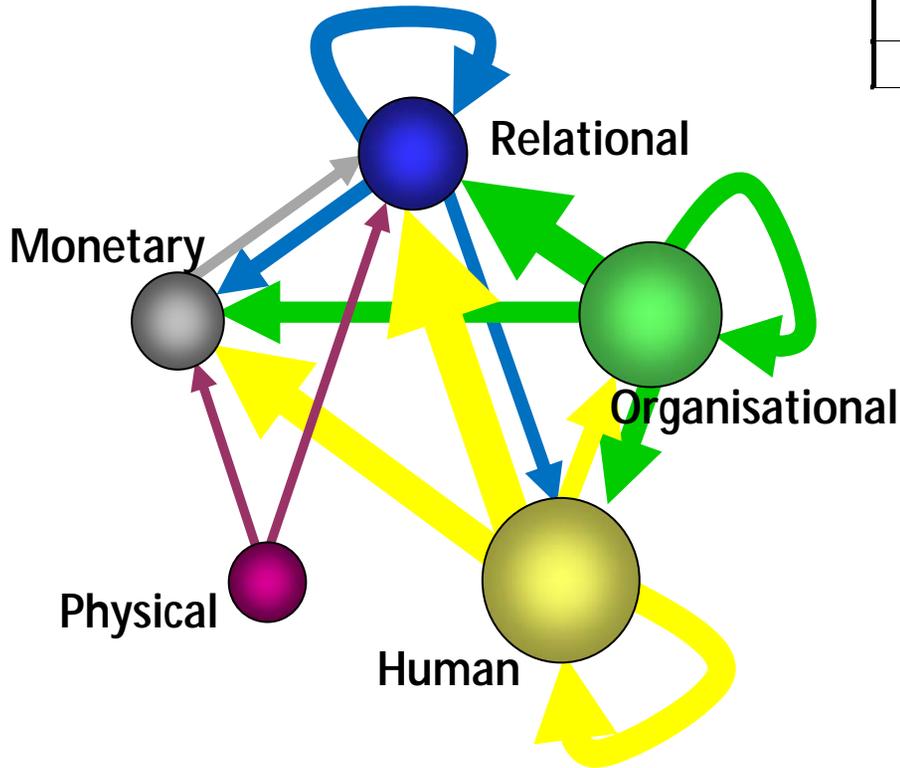
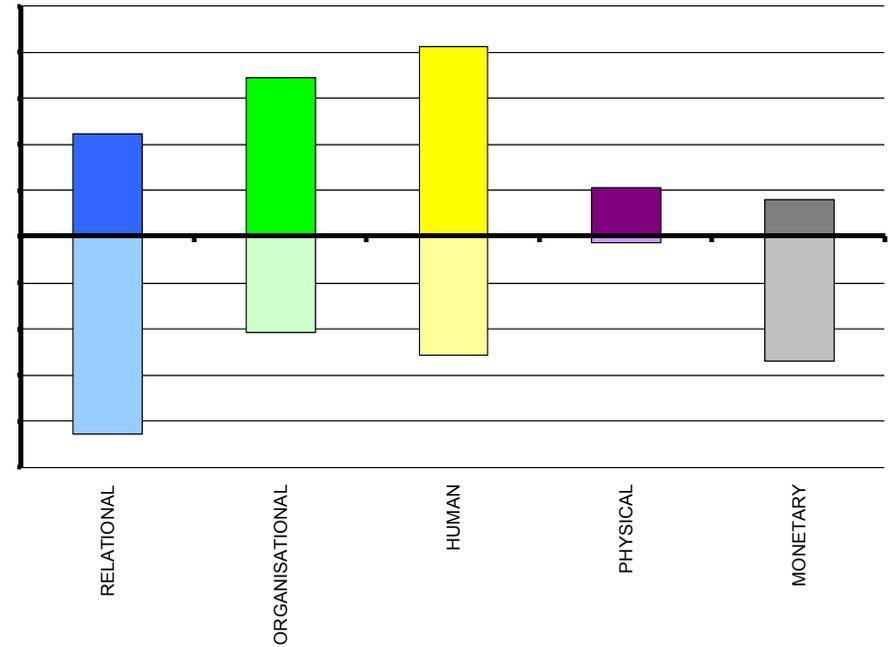


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Standard value shop

Company value shop





	End 2004	End 2005
Gross income	920	971
Cost of execution	285	300
Net income	635	671
Salaries	422	415
Suppliers	160	139
Other	108	108
Gross profit	(54)	9
Tax and exceptionals	0	3
Dividends	0	0
Net profit	(54)	6

The two big questions again

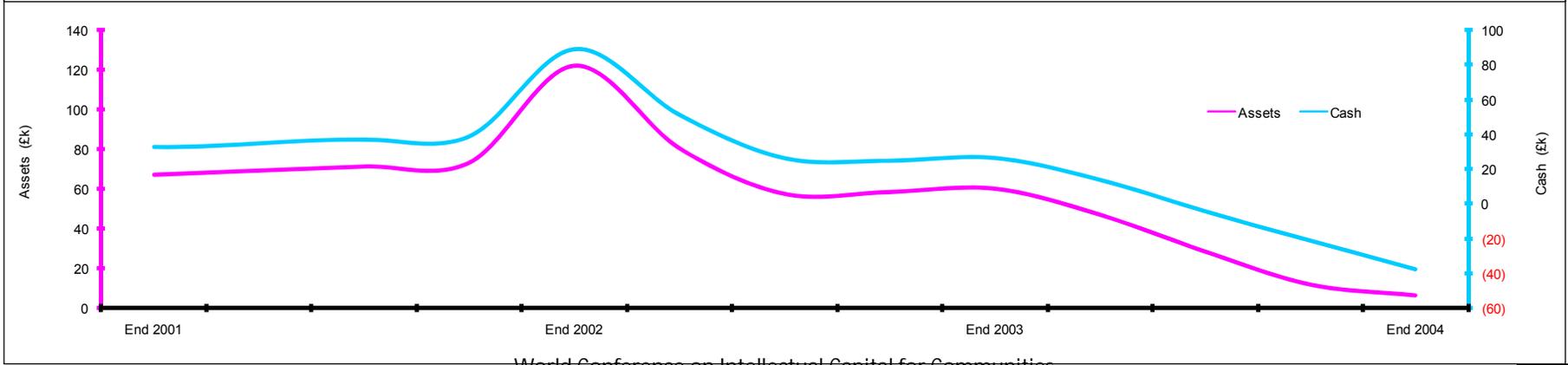
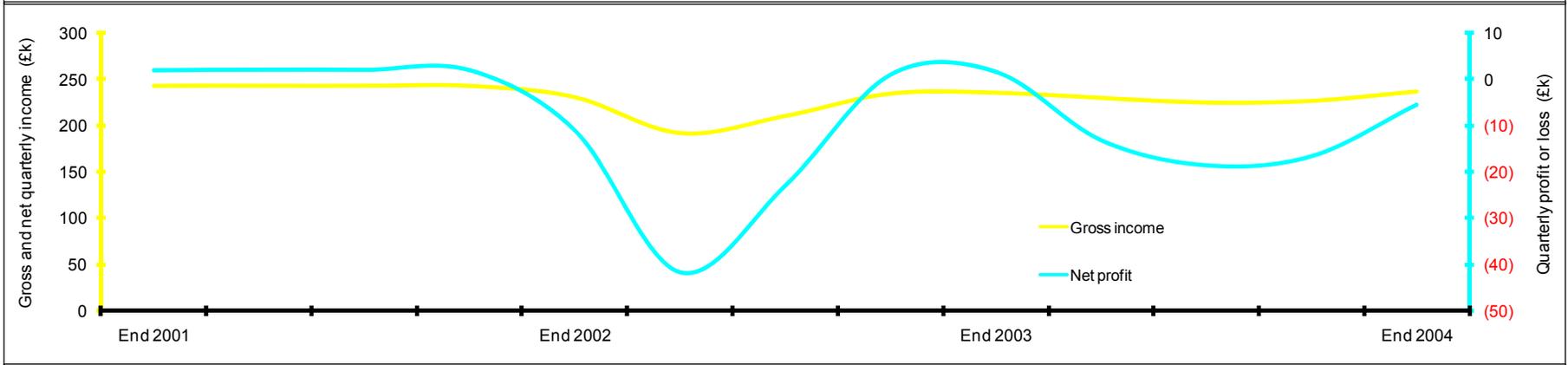
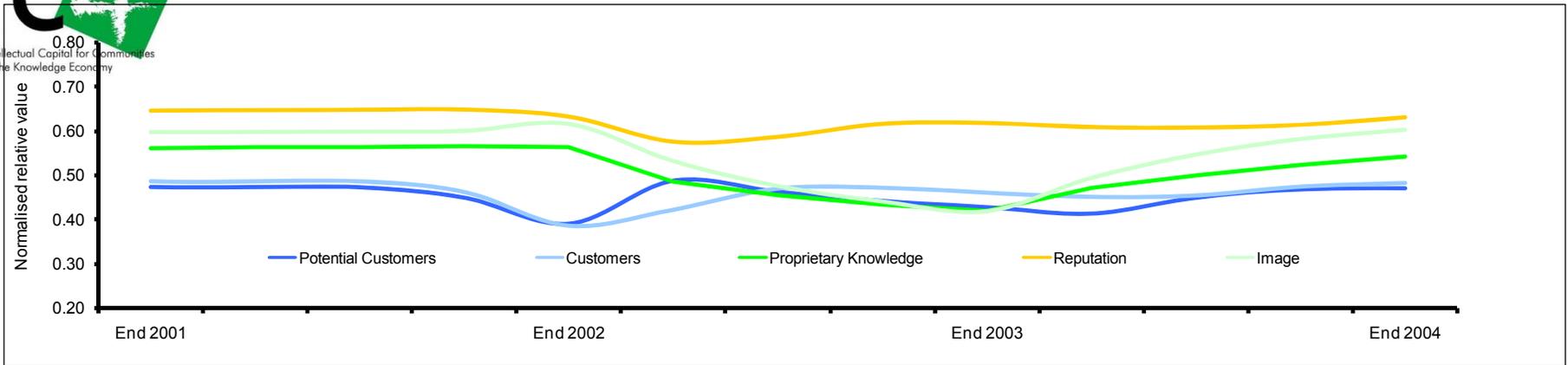
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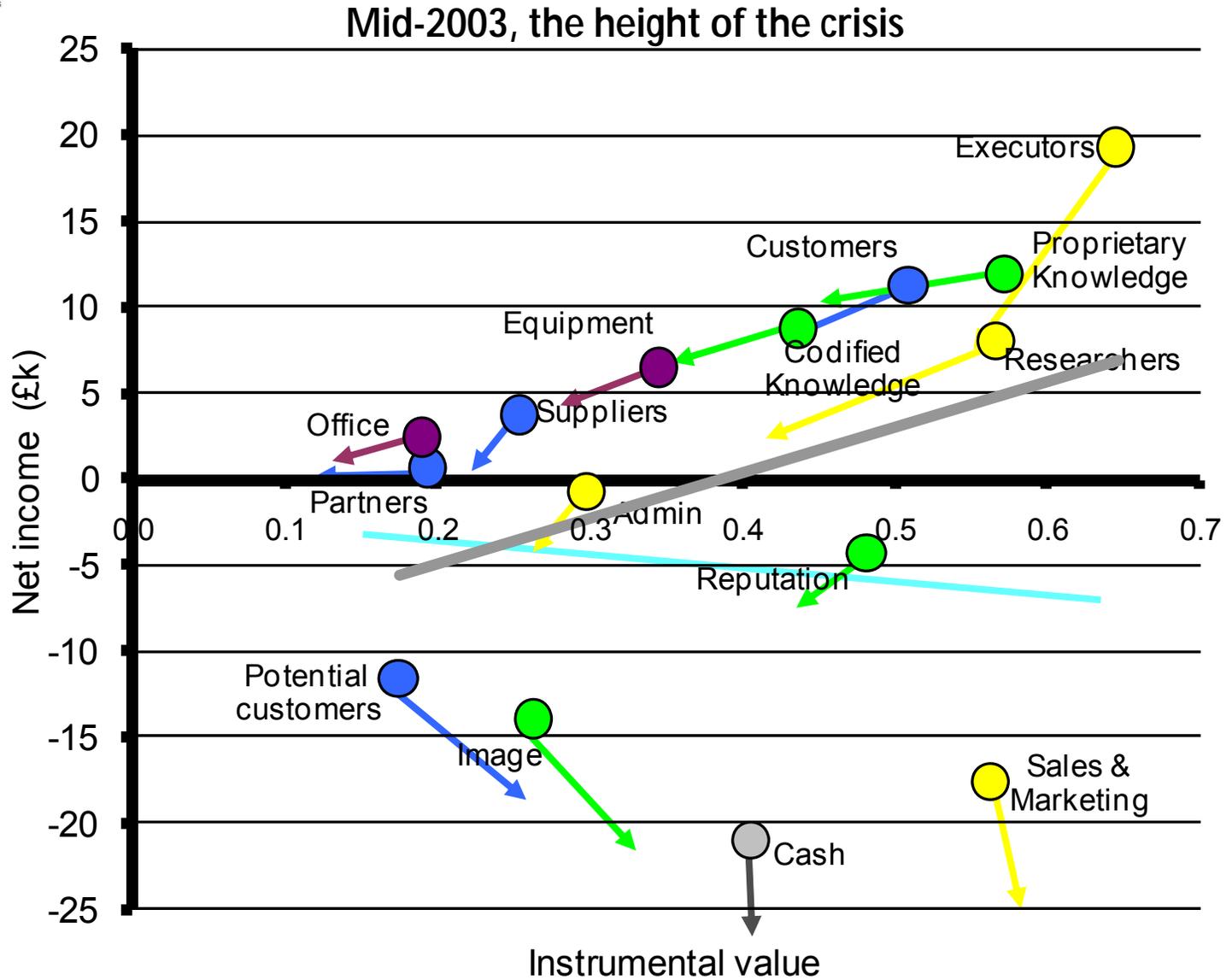


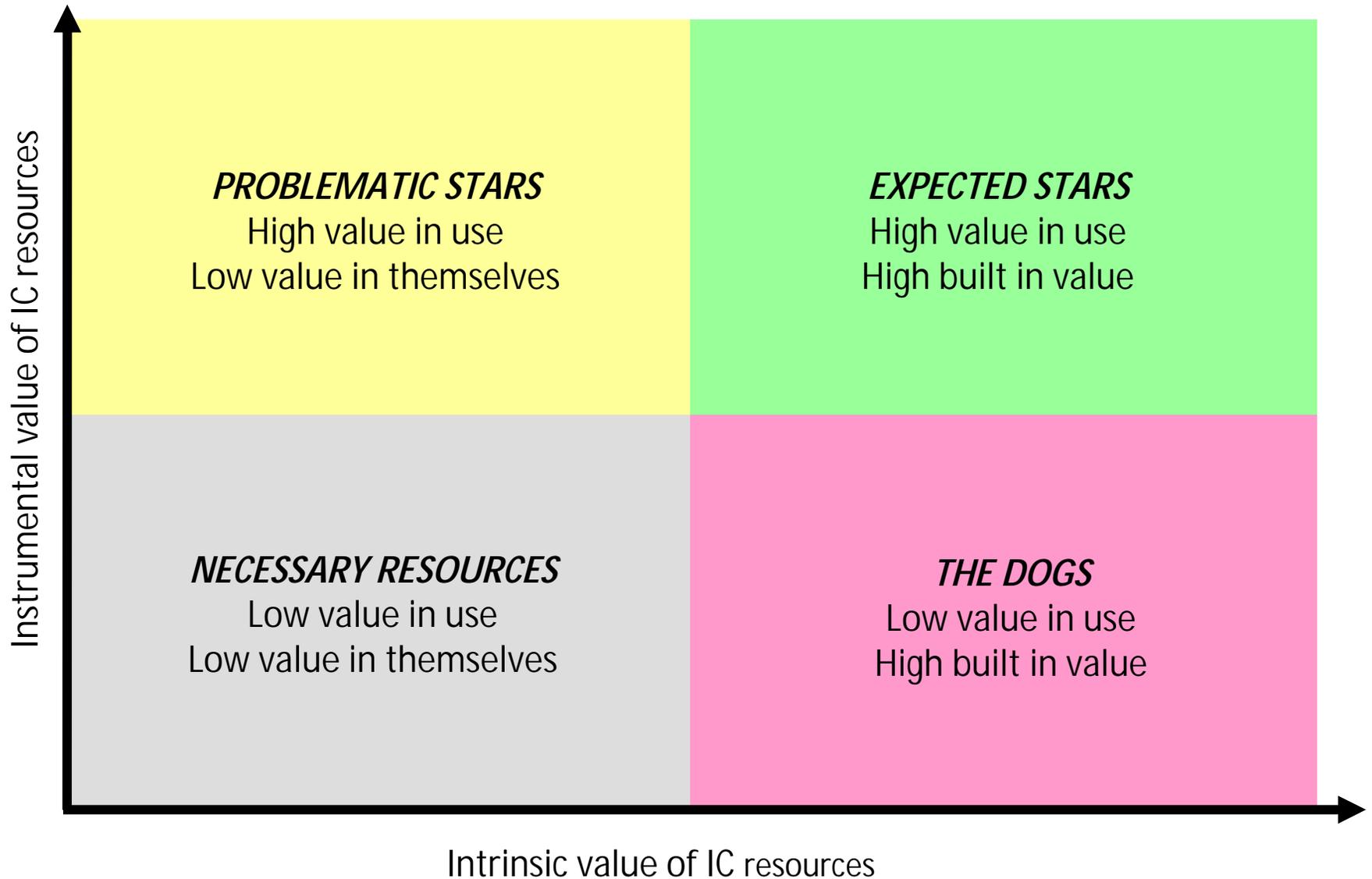
IC and Financial Analysis

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Net income contribution of the IC resources

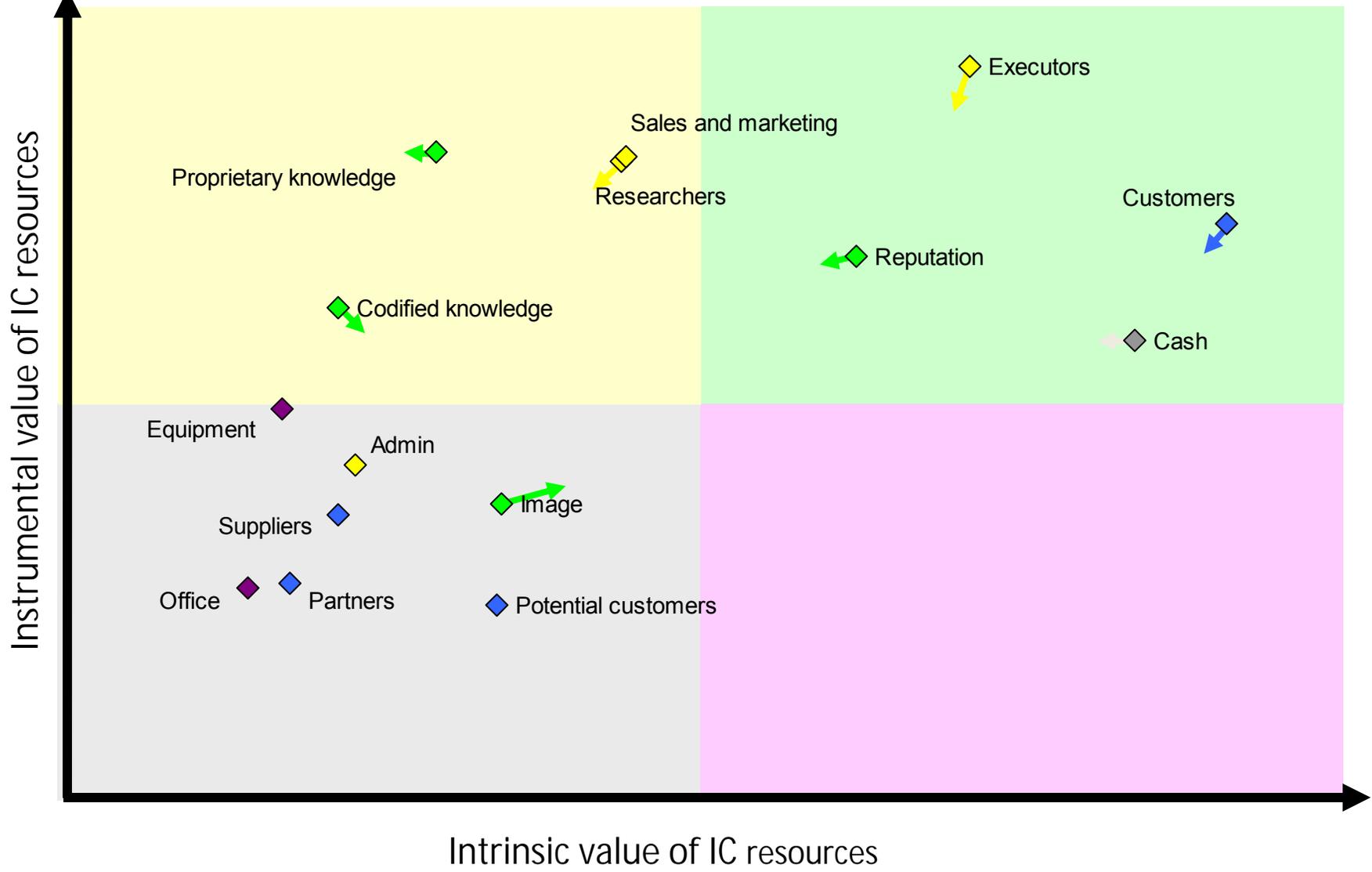






Value from the company's resources

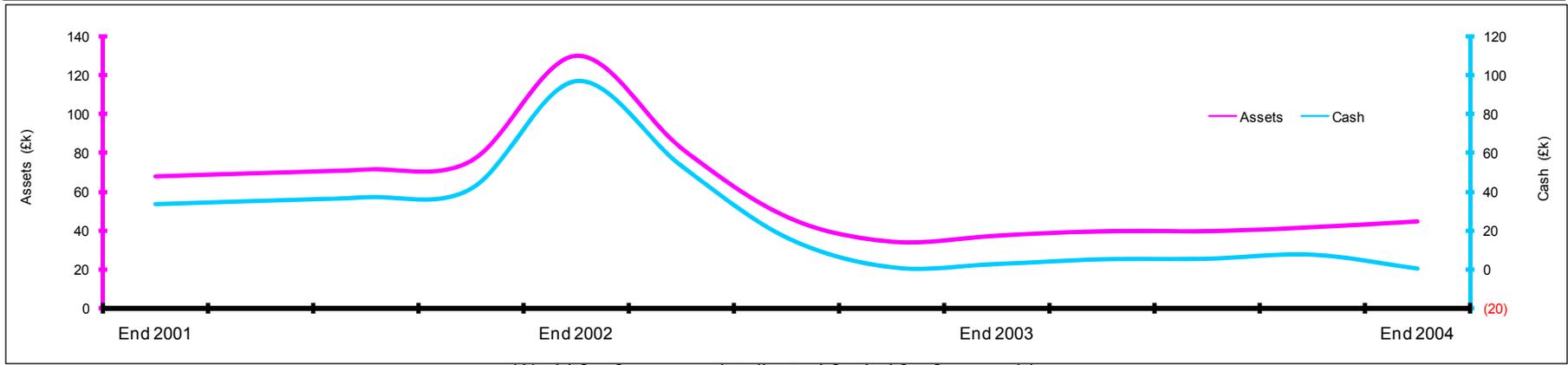
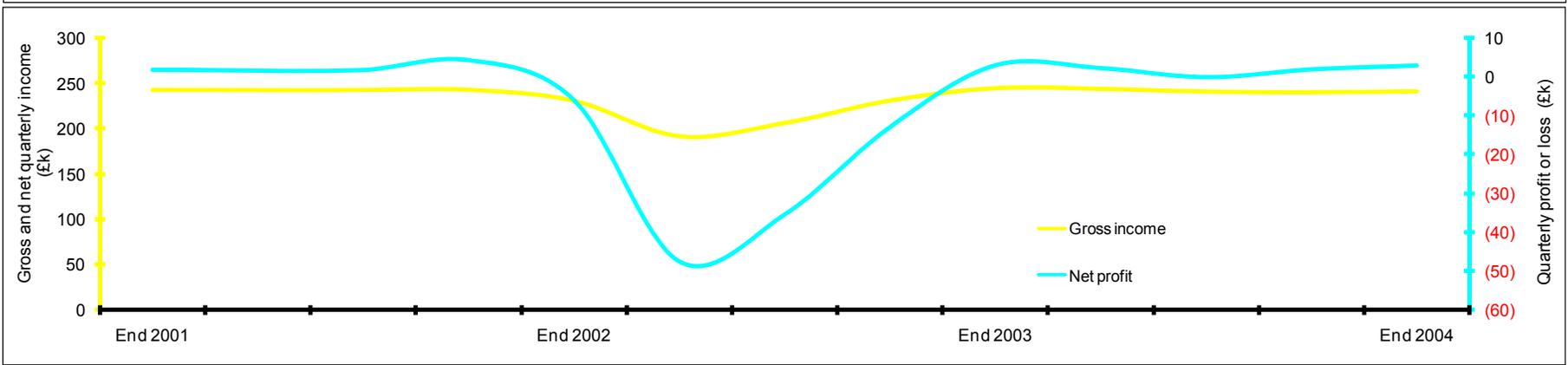
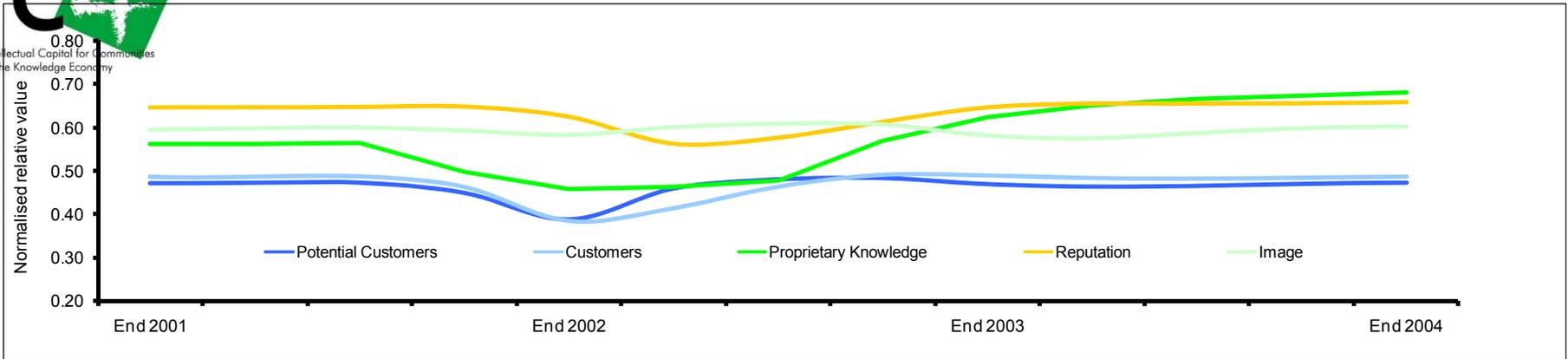
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in the Knowledge Economy



Could the company have survived?



Intellectual Capital for Communities in the Knowledge Economy



1. Business modelling is not a precise science but need not be a lottery
2. Intellectual Capital analyses plays an important part in business model innovation
3. The advanced IC methodology has:
 - For the first time, given a detailed description of real Intellectual Capital resources in a business model and has explicitly linked them to its financial performance (P&L, Balance Sheet and Cash flow).
 - Demonstrated a detailed predictive, diagnostic and forensic capability.
 - Suggested new ways of disclosing and reporting Intellectual Capital in a way which is truly meaningful.
 - Unified the diverse perspectives of Intellectual Capital (eg: HR, KM, CRM, Asset Management and Innovation etc).