Effects of Business Model and Strategic Growth Factors on Organization Value Creation

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This paper examines the effects of business models and strategic growth factors on organization value creation. This paper addresses the research question by using Nestle Nigeria Plc. as a case study with 180 sample size as respondents to test the hypotheses. The study uses regression analysis method to investigate business models and strategic growth factors contribution to organization value creation. The study uses adjusted $R^2$ as a primary metric for measuring the model specifications. The empirical findings show that 55% of business models contribute to organization value creation while 53% of strategic growth factors contribute to organization value creation. This paper recommends that both old and prospective business ventures should take innovation as the primary factor when designing a business model and technology as the primary factor when considering strategic growth in any organization.

Keywords: Business Models, Competitiveness, Innovation, Strategic Growth Factors, Stakeholders, Value Creation.
Introduction

The business environment today is characterized by turbulence, uncertainty and instability caused by both internal and external factors affecting business growth (Stephen and Robert 2012). These factors have led companies to differentiate their products in order to beat competition and create value for their stakeholders. Kotler and Armstrong (2006) identified strategic growth factors and business models as the requirement for attracting and retaining customers over a lifetime.

One of the greatest challenges for most organizations in competitive and business environment is the inability of developing a business model and identifying important strategic growth factors for business development. This has to be done to ensure the achievement of strategic objectives and sustain the creation of value (Neely 1999). There are many business failures in recent times despite enormous resources, novel business idea and opportunities in the market place. The probable reason for this business failure is the underlying model driving the business (Morris, Schindehutte and Allen 2003).

The design of business models and strategic growth factors has been the template for organization framework and construct in relation to creation of organization value and value capture (Zott and Amit 2008). In designing business model, organizations have been able to shift focus of competitive advantage from internal stakeholders to its ecosystem which includes external stakeholders such as vendors, partners and customers. Due to this aforementioned reasons, business models and strategic growth factors have become a possible source of value creation.

The issue of value creation is linked to strategic growth factors (SGF). SGF can be viewed from different perspectives such as value addition, expansion of market shares and revenue generation (Gupta, Guha and Krishnaswami 2013). It is critical therefore, for organization to identify SGF in their business environment and implement strategies to achieve organization growth and value creation.

There has been a body of research (Gupta et al. 2013; Atkinson 2013; Zott and Amit, 2011; Morris et al. 2003) on business models and SGF in many developed countries over the years. However, there are limited studies on the subject of business model and SGF in developing economies like Nigeria.
The main objective of this study is to examine the effects of business model and strategic growth factors on organization value creation. Based on the objectives of this study, the following research questions were considered:

(i) To what extent does business model determine organization value creation?
(ii) Do strategic growth factors lead to organization value creation?

Literature Review

Conceptual Framework

The study of business model is a holistic concept that underpins the business activities of an organization. The whole essence of business model is defining the way firms deliver value to their various stakeholders (Teece 2010). The concept of business model contains a set of tools that expresses the business logic of an organization also the set of firm’s objectives (Osterwalder, Pigneur and Tucci 2005).

Business Model and Innovation

The first step in designing a business model is an innovative and differentiated method of positioning a firm in a competitive environment (Ries and Trout 1981). For organization to make impact in its environment and create a positive value to its stakeholders; innovation must be the driving force of its business activities and this must set the base for designing a firm business model. Due to increased competition in the marketplace, innovation has become a major driving force that will sustain business in the 21st century (Atkinson and Ezell, 2012). Bloomberg (2003) reports that major organizations that have been sustained over the years especially the Fortune 500 companies built their model on creative and innovative ways of doing business.
**Business Model and Quality Product**

Quality product becomes an indispensable and a strengthening strategic positioning of a firm in order to create a sustainable value creation (Kurt, Bailom and Thomas 2013). Therefore, quality product is major component for developing a business model for an organization. London and Hart (2003) posit that high quality and differentiated product is the hallmark of a good business model because it wins the heart of the customers and it turns beat competition for business sustainability. Sustainable product commands respect in the marketplace and made a lasting impression to engender consumers’ loyalty (Hart & Christensen, 2002). Quality product therefore is perceived as a major underlying factor in designing business model in any organization.

**Business Model and Customer Base**

Customer base is a customer-centric business model that allows firms to continuously understand how best organization needs to restructure channels, products and processes to meet the needs of different customers’ (Kristen 2008). The essence of customer base in developing a business model is because customer relationship management has become one of the major business and competitive strategies in today’s global market environment (Kim, Suh and Hwang 2003). Amit and Zott (2001) opine that customer base is a crucial factor in building an organization’s business model because it drives growth and profitability. A large customer base portends a lasting business sustainability coupled with other essential factors in developing organization’s business models.

**Strategic Growth Factors**

The concept of strategic growth factors is linked to strategic planning and management within most organizations today. Strategic growth factors are the underlying factors that propel strategic growth for any organization and deliver organizational strategic vision (Ryszard 2009). SGF are critical and success factors that need to be considered for an organization to achieve its strategic goals and create sustainable value creation for all its stakeholders.
Strategic Growth Factors and Technology

Technology is one of the major strategic growth factors that cannot be undermined in order to achieve both short and long term success of an organization. John (1996) opines that strategic technology in form of information technology; biotechnology and new technology materials are the core technologies that organizations need to achieve strategic objectives of organizations. Corrado and Hulten (2010) report that technology remains one of the strongest strategic growth factors in building sustainable business in the global marketplace because the world has gone high-tech in facilitating business activities. Due to increasing complexity in global market, there is need for organizations to invest heavily technology both human and machine. Modern technology-based companies build market structure easily, make innovation easy and increase productivity.

Strategic Growth Factors and Quality Service

In today’s competitive marketplace a good quality service strategy is the bedrock of value creation for most organization. Many studies have found a direct positive link between quality service perceptions and strategic growth factors (Zeithaml, Berry and Parasuraman 1996; Fuch and Kirchain 2010). Quality services entail activities that comprise customer support system, speed of complaint processing, complaint processing and ease of report complaint (Hanif, Hafeez and Riaz 2010). Lucas (2009) posits that quality service has been an essential factor in growth model in driving customer’s retention in most global and multinational organizations today. The study found that quality service is important in creating and adding value in business.

Strategic Growth Factors and Competitiveness

In order for organization to achieve and sustain value creation, there is need to compete competitively in the market-place. Competitiveness is the ability of an organization to deliver and add to value creation in terms of cost competitiveness, growth competitiveness and market share competitiveness (Atkinson 2013). The behavior of firm’s competitors is a major factor that affects strategic growth factors of an organization. Competitive business has
become imperative if organizations are to attain productivity growth and gain enough market shares in the marketplace. There is need for organization to focus on the area that gives them more edge over their peers.

Below Figure 1 show the conceptual model that links all the business models and strategic growth factors variables together.

![Figure 1: Conceptual Model](image)


**Review of Prior Literature**

Kamuriwo (2010) examines business model and product market strategy trade-offs of a large UK based biotechnology firms between 1995 and 2006. He found a significant interaction with product market strategy as measured by customer segments, which is a variable of business model concept. Also, the study underscores the necessity of business model constructs as sources of competitive advantage. Consistent with the study of Kamuriwo (2010); Yip (2004) study examines using strategy to change your business. He carried out a study of technology based 5 companies in the US; his study found that innovation and quality product are the most business mode design that impact organization value creation. Also, the study found a significant relationship between technology and value creation.
Johnson and Gutierrez (2010) examine the business model of the newspaper industry: using electronic business model to design important growth in the newspaper industry. The study used wall street journal as the case study. Survey design was used with interview about the newspaper industry business model. They found out that business model of the newspaper industry will continuously face disruption due to changes in consumer habits as well as technology. Magretta (2009) conducts a study on why business model matters, the study found that business model is a major construct in value creation for most US companies. The study found a positive and significant relationship between value creation and customer retention.

Peyton, Lueg, Iversen and Panti (2014) examine business model change in the software industry. The study explored a case study of Danish division of a small Norwegian company (APOLLON) specialized in outbound logistics soft-ware. The study found that emergent strategy tools should be incorporated in the business design in order to capture a holistic approach and management control system for organization in the software industry. Morris, Schindehutte and Allen (2003) examine the entrepreneur’s business model towards a unified perspective. According to their study, six-component framework was conceptualized for a pro-posed business model. The study concludes that business model can be a focal point in entrepreneurship research. Therefore, business model represents a strategic tool for conceptualizing a value-based organization.

Cassdesus-Masanell (2009) examines business model strategy and tactics. The study presents a simple integration of strategic growth factors and business model. The study found that business model impact strategic growth factors in any competitive business environment, therefore, strategic growth factors anchor on a well-designed business model in any organization. Shafer, Jeff and Jane (2005) conduct a study on the power of business models; the study developed a six construct in designing a business model which includes innovation, quality product, competitiveness, quality service, technology, and customer service. The study found that all constructs of business model have a positive impact on organization’s value creation.
Hypotheses Development

The paper aims to investigate the effects of business models and strategic growth factors on organization value creation. The prediction of this study is that business model and strategic growth factors will impact on organization's value creation.

Zott and Amit (2011) examine business model innovation: creating value in times of change. The study uses innovation as business model constructs as an alternative for entrepreneurs and business managers to create value for their stakeholders, especially, in times of economic challenges. Companies need to adopt appropriate business models and strategic growth factors in order to capture the extent of value created by firms.

Therefore, the study predicts that:
Ho 1: Business model is not significantly related to organization's value creation.
The study also predicts that:
Ho 2: Strategic growth factor is not significantly related to organization's value creation.

Theoretical Framework

This study adopts stakeholders’ theory as the basis of business model and strategic growth factors as it affects organization value creation. The theory was developed by Fried-man (1984) because of the need to involve all stakeholders (employees, customers, management, vendors and community) in the value creation process of an organization. Value creation studies base the development of their empirical model on stakeholders' theory that provides the theoretical foundation for value creation studies (Antonio 2011). The theory argues therefore, the importance of engaging other entities in decision making processes of organizations therefore creating better social responsibility for all stakeholders (Andriof and Waddock 2002). The theory emphasizes the importance of attaining organizations’ goals and enhance its relations with the stakeholders through business strategy (Freeman 2010). The theory underscores the importance of stakeholder engagement in value creation process as a tool to enhance achievement of accountability,
efficiency in decision making processes and successful business growth (Yetano, Royo and Acerete 2010).

**Methodology**

This study uses survey design method to collect data through the use of questionnaire. Nestle Nigeria Plc. was used as a case study for this paper. Questionnaire was distributed to the employees of the following departments: finance, marketing, supply chain and research & development unit. The total population of the study is three hundred and twenty (320) people (Nestle Annual Report, 2016), while the sample size is one hundred and eighty (180) people. The sample size was obtained through the use of Taro Yamane formula. The sample size of 180 is considered relevant for this study based on the Taro Yamane formula.

The questionnaire was constructed using a five-point Likert scale. There are two sections in the questionnaire; Section A comprises the personal information of the respondents while Section B is on questions relating to the hypothesis. The data collected were analysed with the use of both descriptive and inferential statistics.

This study uses ordinary least square (OLS) regression method as the statistical method for analysing the data gathered. The data collected for the study were analysed through the use of Statistical Package for Social Sciences (SPSS). This study adopts OLS because it allows adjusted coefficient of determination (adj. R²) as a unit to measure the extent and relationship between dependent variables (value creation) and independent variables (Business Models and Strategic Growth Factors).

**Model Specification**

The theoretical framework provides the basis for the model specification; it explains the relationship between value creation and business models/strategic growth factors. This was carried out from the perception of the stakeholders’ theory. The stakeholders’ theory considers business models and SGF as variables that affect organization value creation by taking into account its effects on all stakeholders.

\[
VC = (BM, SGF),
\]

Where: VC= Value Creation, BM= Business Model,
Effects of Business Model and Strategic Growth Factors on Organization Value Creation

SGF= Strategic Growth Factors

Consequently, the effects of value creation can be represented as follows:

\[ VC = f(BM, SGF) \] ............................... (I)

Assuming a linear relationship, we can write the above equation (I) in an explicit functional form after taking into consideration control variables as:

\[ BM = \beta_0 + \beta_1 \text{Innov.} + \beta_2 \text{QualProd.} + \beta_3 \text{CustBase} + \epsilon \] .......................... (II)

Where: \( \beta_0 \) = Constant term, BM= Business Model, Innov= Innovation, QualProd= Quality Product, CustBase= Customer Base, \( \epsilon \) = error term (surrogate for all other variables not included).

\[ SGF = \beta_0 + \beta_1 \text{Tech.} + \beta_2 \text{QualServ.} + \beta_3 \text{Competiv.} + \epsilon \] .......................... (III)

Where: SGF= Strategic Growth Factors, Tech= Technology, QualServ= Quality Service, Competiv= Competitiveness, \( \epsilon \) = error term (surrogate for all other variables not includ-ed).

Where: \( \beta_0, \beta_1, \beta_2 \) and \( \beta_3 \) are the parameters to be estimated. The apriori expectation is that \( \beta_1 > 0, \beta_2 > 0 \) and \( \beta_3 > 0 \).

### Results and Discussion

In this section, we present the results of our empirical find-ings both the descriptive and inferential. Table 1 presents the descriptive statistics while tables 2 to 5 present the regression analysis for the model developed.

<table>
<thead>
<tr>
<th></th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
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<tbody>
<tr>
<td>N=180</td>
<td></td>
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</tr>
<tr>
<td>BM</td>
<td>28.48</td>
<td>151.52</td>
<td>70.987</td>
<td>24.219</td>
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<tr>
<td>SGF</td>
<td>15.55</td>
<td>164.45</td>
<td>78.541</td>
<td>25.697</td>
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<tr>
<td>Innov</td>
<td>34.43</td>
<td>145.57</td>
<td>65.667</td>
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<tr>
<td>QualProd</td>
<td>53.22</td>
<td>126.78</td>
<td>55.924</td>
<td>14.647</td>
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<tr>
<td>CustBase</td>
<td>25.84</td>
<td>132.58</td>
<td>60.487</td>
<td>18.694</td>
</tr>
<tr>
<td>Tech</td>
<td>21.58</td>
<td>148.36</td>
<td>68.923</td>
<td>22.472</td>
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<tr>
<td>QualServ</td>
<td>54.13</td>
<td>125.87</td>
<td>53.712</td>
<td>12.896</td>
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<tr>
<td>Competiv</td>
<td>50.13</td>
<td>129.87</td>
<td>58.358</td>
<td>16.582</td>
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</table>
Table 2: Model I Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
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<tr>
<td>1</td>
<td>.718a</td>
<td>0.668</td>
<td>0.55</td>
<td>0.51132</td>
</tr>
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</table>

a. Predictors: (Constant)

Table 3: Result of Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficient</th>
<th>Standardized Coefficient</th>
<th>t-test</th>
<th>p-value</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.338</td>
<td>0.422</td>
<td>3.167</td>
</tr>
<tr>
<td></td>
<td>B1 (Innovation)</td>
<td>0.502</td>
<td>0.081</td>
<td>0.475</td>
</tr>
<tr>
<td></td>
<td>B2 (Quality Product)</td>
<td>0.163</td>
<td>0.077</td>
<td>0.165</td>
</tr>
<tr>
<td></td>
<td>B3 (Customer Base)</td>
<td>0.006</td>
<td>0.066</td>
<td>0.207</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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</table>

a. Dependent Variable: Do you think business model is essential for organization value creation?

Table 4: Model II Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
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<tr>
<td>2</td>
<td>.793a</td>
<td>0.643</td>
<td>0.525</td>
<td>0.50453</td>
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</table>

Source: Authors Computation (SPSS 2017)
a. Predictors

Source: Authors Computation (SPSS 2017)

Table 5: Result of Regression Analysis

<table>
<thead>
<tr>
<th>Coefficientsa</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t-test</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Model</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>(Constant)</td>
<td>2.103</td>
<td>.322</td>
<td>1.254</td>
</tr>
<tr>
<td></td>
<td>Β₁ (Technology)</td>
<td>.455</td>
<td>.080</td>
<td>.458</td>
</tr>
<tr>
<td></td>
<td>Β₃ (Competiveness)</td>
<td>.097</td>
<td>.072</td>
<td>.123</td>
</tr>
<tr>
<td></td>
<td>Β₃ (Quality Product)</td>
<td>.136</td>
<td>.068</td>
<td>.176</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Do you think SGF is essential for organization value creation?

The main purpose of this study is to examine the effects of business models and strategic growth factors on organization value creation. The study informs research of business models and strategic growth factors on organization value creation. The paper contributes to knowledge in the following ways.

Firstly, the study shows that innovation is the most important element in business model development for both old and new business organizations. Therefore, novelty ideas should be taken into consideration for prospective entrepreneurs that seek to thrive in a competitive marketplace.

Secondly, the study adds to empirical substance in the current debate over the usefulness of business model for new business opportunities. This paper serves as a useful re-source material for new entrepreneurs and the on-going international discussion on the value relevance of business model to modern day organizations. Lastly, the
empirical findings of this paper support stakeholders’ theory frame-work in describing the relationship between business model and value creation. Evidence from this study reveals that there is positive correlation between business model and organization value creation.

Table 1 presents the result of the descriptive statistics; the findings show that 83% respondents believe that business model contribute the organization value creation while 91% respondents believe that strategic growth factors impact value creation in an organization. All the explanatory variables show a high percentage in terms of their contribution to organization value creation. However, innovation shows a higher explanatory power of 81% when designing a business model than quality product (70%) and customer base (73%) while technology reveals a higher percentage (82%) when choosing the most relevant strategic growth factors than quality service (69%) and competitiveness (72%).

Table 2 presents summary of the model for hypothesis 1; the results show that adjusted R² for business model is 0.55 (55%) for the total sample. This implies that all the explanatory variables (innovation, quality product and customer base) significantly impacts organization value creation. Table 3 shows that all the regression coefficients are statistically relevant and significant. The coefficient of β₁ (Innovation) is 0.475 and has a higher explanatory power than other variables. This shows that innovation is the most important variable when designing a business model for organization. It thus shows that innovation is directly significant in value creation in any organization. Overall, it shows that business model is essential for organization value creation. Decision: the null hypothesis 1 is rejected because business models is significantly contributes to organization value creation.

Table 4 presents summary of the model for hypothesis 2; the results show that adjusted R² for business model is 0.525 (53%) for the total sample. This implies that all the explanatory variables (technology, quality service and competitiveness) significantly impacts organization value creation. Table 5 shows that the entire regression coefficients are statistically significant. The coefficient of β₁ (Technology) is 0.455 has higher explanatory power than other variables. This reveals that technology is a major strategic growth factor that helps organization creates value. Decision: the null hypothesis 2 is rejected because business models is significantly contributes to organization value creation.
The findings in this study is consistent with previous studies like Shafer et al. (2005) which found that business model has the power to influence the value creation process in any organization. Similarly, this study corroborates the findings of Cassdesus-Masanell (2009) which found that a good business model and strategic growth factors impact positively on organization value creation. Our finding is consistent with the studies of Schindehutte and Allen (2003); Yip (2004); Magretta (2009) which reveal a positive and significant relationship exist between business model and organization value creation.

This study only examines a single multinational company in the consumer goods sector. Future research could extend to more companies from different sectors of the economy. Also, future research could consider small and medium enterprises in order to gain more information on business models and strategic growth factors in respect to organization’s value creation.

Conclusion and Recommendation

This paper examines the effects of business models and strategic growth factors on organization value creation with Nestle Nigeria Plc. as the case study. The study reveals that both business models and strategic growth factors contribute significantly to organization's value creation. The paper concludes that innovation is the most important variable to consider when designing a business model business opportunities. Also, technology is the most important strategic growth factor that helps contributes to organization's value creation.

The following recommendations were made based on the empirical findings in this study:

Both old and new organizations should endeavor to develop a proper business model framework with more emphasis on innovation that will help create value for stakeholders in the organization. Strategic information technology has been identified as a major asset in strategic growth factors. Therefore, organization should ensure that information technology should be given a strategic place in order to achieve business strategy and add value to all stakeholders.
References


