Business Model and Strategic Governance: a case in the manufacturing industry

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Abstract

Nowadays, enterprises change their manner of work and the working mentality. For these changes, ‘Strategy’ is getting more important day after day in order to govern the work and employees in a better way. There is no executive in the World would compete in the market without a clear business strategy. Change content strategies refer to what in your organization needs to change strategy, structure, systems, technology, business processes, products, services, and culture. Therefore it is needed to have a correct way for Strategy and implement this into Business Model in order to apply in the management of enterprise.

First, we started to focus on the literature reviews of “Manufacturing Industry”, “Strategic Governance” and “Business Model” with commenting on the references of the recent and important studies based on these three concepts.

This study is aimed at proposing a Strategic business governance model in order to help to practitioners to gain competitive advantage in their sector. We defined the elements which are crucial to take into account and we reinforced this model with applying on a case study of Benetton. The case study was first analyzed based on the business model of the company and how the situation of strategic governance was. Then, we discussed the business model and strategic governance related to our proposed model and our comments.

Finally, each element on the proposed model and importance of Strategic Governance and Business Model was analyzed in order to have clear results. In order to give more concreteness to this presentation, we implemented a case study and applied the proposed model into case study.
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Chapter 1 - Introduction: in this chapter was presented aspects related to productivity, sustainability, innovation, competitiveness and their importance in manufacturing industry. Moreover we presented our goal and the aim of this study.

Chapter 2 – Literature Review: in this chapter was presented definitions, features and frameworks of business model, strategic governance and manufacturing industry based on our objective on this study which is competitiveness and its importance to manufacturing industry and comments on each concept.

Chapter 3 – Model Proposal of Strategic Governance for Business Model in Manufacturing Firms: in this chapter, two models were presented. One of them named ‘Integrated System of Business Model (ISBM)’ (Batocchio, 2015) and the other one is proposed model entitled ‘Strategic Business Governance Model’. All elements of the model was listed and explained.

Chapter 4 – Research Methodology: in this chapter, we explained the research methodology and emphasized on the importance of case study. We hence defined where and how the data was gathered from and analyzed.

Chapter 5 – Case Study: in this chapter was presented an application of framework of business model in the hypothetical case with data obtained of literature and the real case, results and a case discussion. Connection between the proposed model and case study was shown.

Chapter 6 – Conclusion: in this chapter was presented comments, recommendations, discussion about the model proposed and the case study and we pointed at importance to gaining competitive advantage.
CHAPTER ONE

1. Introduction

In the recent times, several emerging and continuing trends point to a variety of fundamental changes central to manufacturing strategy. Many of these changes are technology driven, and in some cases today’s firms are already grappling with their effects (St.John, 2001).

However, changes and innovations increase steadily (Christensen, 1997), the manufacturing strategy of the firm must be characterized by an adaptive way (Hamel and Valikangas, 2004), to continuously build up endogenous innovation or catch up exogenous changes, so as to keep an adequate strategic fit (Grant, 1991) between the firm’s strategy and the internal and outlying external environments.

Beside of that, one of the most important issues in which manufacturing companies operate is radical changes. Manufacturing firms are reorganizing their value chains and focusing on a few core activities, where they can achieve and gain a long-term competitive advantage, outsourcing all other activities in which they do not have a world-class status. Particularly, companies operating in volatile, high customized, or advanced technology users and extensive outsourcing more attractive and strategically more important for survival, than before (Weele, Rozemeijer, 1996).

In brief, for the incremental and radical changes in a manufacturing firm, the drivers of change can be summarized within manufacturing as follows: (1) ubiquitous availability and distribution of information, (2) accelerating pace of change in technology, (3) rapidly expanding technology access, (4) globalization of markets and business competition, (5) global wage and job skills shifts, (6) environmental responsibility and resource limitations, and (7) increasing customer expectations (Hughes, 1997, p. 3).
Finally, customers become more educated, more conscious and improve their norms of living in the world, they will become more demanding of manufacturers (St.John, 2001).

Strategic and corporate governance is a crucial element of strategic management that can improve firm’s performance. Despite its importance, many people are unclear about what the governance is precisely. Both managers and investors should understand what corporate and strategic governance is and the role that it plays in firms. Being aware of what corporate and strategic governance is will allow them to see how it affects their respective businesses (Jahavar, 2012).

For these reasons of change, we figured out that there is a big problem of having a Business Model and application of this model into company’s strategy because of weak Strategic Governance in manufacturing firms. Strategic Governance covers a manufacturing firm in order to define the manufacturing strategy and how to govern the business and its’ organization in the company. This study argues with, as we will explain in details in CHAPTER FOUR, gaining “competitive advantage” is the outcome of the model we proposed. So, we always asked ourselves the questions: “How can we have competitive advantage?” “Which strategic decision do we have to take?” Therefore, after starting to find the answers to these questions, we came up with the idea proposal, and discussed this idea onto case study that we would try to find an obvious result.

Beside of that, providing a good Literature Review on “Strategic Governance”, “Business Model”, “Manufacturing Industry” was other goal of this study. For this, we tried to use recent and important sources which focus on these specific elements.
CHAPTER TWO

1. Literature Review

In this chapter, we provided the Literature Review of three main concepts: ‘Strategic Governance’, ‘Business Model’ and ‘Manufacturing Industry’ since our goal is to find the proper way of Strategic Governance for Business Model in a manufacturing firm. In order to clarify Strategic Governance, we first cared for explaining and proposing a literature review on ‘Manufacturing Strategy’ and ‘Corporate Governance’ that will help us to explain Strategic Governance in a better way. Throughout the literature review, we paid attention on procuring various sources of studies on each concepts in a long time period. Also, we cared about using the recent sources in order to provide references that can help us to make analysis of the current years in manufacturing industry.

2. Literature Review on Strategic Governance

Before defining and understanding Strategic Governance, we first start to discuss on the definitions and meanings of ‘Manufacturing Strategy’ and ‘Corporate Governance’. We then continue with identifying ‘Strategic Governance’ in the light of these definitions.

2.1 Manufacturing Strategy

There are many researches in the field of manufacturing strategy, competitive priorities, performance measurement and operations planning. Skinner (1969) was the first to explain the concept of manufacturing strategy. Skinner (1974) defined common competitive performance criterion for manufacturing strategy as like short delivery times, ultimate quality and reliability, dependable deliveries, faster new product developments, flexibility in volume changes and low cost. For the evaluation of manufacturing strategy, Wheelwright (1978) described efficiency, dependability, quality and flexibility as the most important criterions. In
subsequent studies, Hayes and Wheelwright (1984) defined cost, quality, flexibility and dependability for the four competitive preferences of manufacturing to reinforce a company’s competitive power. Later, Krajewski and Ritzman (1987) explained five operations competitive tools: cost, high performance design, consistent quality, on-time delivery, product and volume flexibility. In order to look from broad scanning on the literature of manufacturing competitive priorities, Leong et al. (1990) advocated quality, delivery, cost, flexibility and innovativeness are the most critical ones (Figure 1). Many studies suggest the togetherness of criteria like cost, delivery, flexibility, and quality as the key priorities of manufacturing strategy. Leong, Snyder, and Ward (1990) divided the manufacturing strategy into two components: (i) competitive capabilities or priorities and (ii) strategic decision processes. A more complete description of manufacturing strategy is done by Platts et al. (1998):

“a pattern of decisions, both structural and infrastructural, which determine the capability of a manufacturing system and specify how it will operate, in order to meet a set of manufacturing objectives which are consistent with the overall business objectives.” (Platts et al., 1998, p.517)

Manufacturing strategy is for the capabilities that a firm can develop based on the operations function. Manufacturing strategy can also be considered as a business strategy component of a company and it is extremely related to firm’s business strategies (Anderson et al., 1989). According to Hill (1995), there are two important manufacturing strategies: the order winner, which contains price, delivery, quality, design of product and range, and the order-qualifier, which an enterprise must meet whether it exists in a market or not. Many studies have emphasized on the connection between manufacturing strategy and manufacturing activities (Ferdows & De Meyer, 1990; Hayes & Clark, 1985).
The illustration explains two important properties of manufacturing strategy content; decisions that determine the capabilities of the manufacturing system, and the existence of specific manufacturing objectives. Leong et al. (1990) sums up these knowledge into what has become the predominant model of manufacturing strategy content (Figure 1). The model indicates two major features of manufacturing strategy content, competitive priorities and decision categories (Leong et al. 1990; Dangayach and Deshmukh, 2001).

Manufacturing strategy is used to improve main manufacturing capabilities, to support business and corporate strategy, to perform the business toward gaining production capabilities, to support competitive priorities through its close correlation with competitive strategy, and to be a determinative factor of the competitive advantages (Boucher, Bonjour, & Grabot, 2007; Leong et al., 1990; Marucheck, Pannesi, & Anderson, 1990).

![Figure 1: A Content Model of Manufacturing Strategy (Leong et al., 1990)]
2.2 Corporate Governance

The term ‘governance’ refers to the act of governing, or the authority to rule and control. There is no precise definition of corporate governance. We found out the most comprehensive explanation made by OECD.

OECD (2004) explains corporate governance as follows:

“Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.” OECD (2004)

Shleifer and Vishny (1997) explained corporate governance as “the ways in which suppliers of finance to corporations ensure themselves of getting a return on their investment (p.737)”.

A similar vision is also proposed by Caramanolis Cötelli (1995), who views corporate governance as being determined by the equity allocation among insiders such as executives, CEOs, directors, corporate or institutional investors who are affiliated with management and outside investors.

John and Senbet (1998) gives more comprehensive explanation as “corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected (p. 372)”. They advocate as stakeholders are not only shareholders, but also debtholders and non-financial stakeholders such as employees, suppliers, customers, and other interested parties. Hart (1995) clarifies this view with his suggestion that “corporate governance issues arise in an organisation whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organisation – these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a
contract (p. 678)”.

According to La Porta et al. (2000), corporate governance is set of mechanisms through which outside investors protect themselves against expropriation by insiders such as the managers and controlling shareholders. Then, they give specific examples of the different types of expropriation. The insiders may steal the profits; sell the output, the assets or securities in the firm they control to another firm they own at below market prices; divert corporate opportunities from firms; put unqualified family members in managerial positions; or overpay managers. This expropriation is central to the agency problem described by Jensen and Meckling (1976). These definitions and explanations of corporate governance are all refer to the existence of conflicts of interest between insiders and outsiders by emphasizing on those arising from the separation of ownership (Jensen and Meckling, 1976).

2.2.1 Corporate Governance Model Example

After we had searched for many Corporate Governance Model, we thought that it would be better in terms of suitability on our studies if we mention and explain the model published and presented on the ‘Global Corporate Governance Forum’ of Dr. Yilmaz Arguden who is the Chairman of ARGE consulting, an Istanbul based strategy boutique and the Chairman of Rothschild in Turkey, Pinar Ilgaz and Burak Ersahin from ARGE consulting.

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Dr. Yilmaz Arguden (2010) and his colleagues who prepared this report started to explain their model in the meaning of ‘Trust’ before getting into the Corporate Governance definitions. Because they believed that ‘Trust’ is the main source to build a Corporate
Goverance. Trust is the foundation of sustainable development. As the world continues to get smaller, our mutual interdependence increases and we all need to be able to mobilize others’ resources and good will to achieve success. Mobilizing others’ resources can only be achieved through gaining their trust.

Therefore, the ability to gain the trust of global financial markets and all the stakeholders in the value chain is becoming the key to success. This requires consistent, responsible, accountable, fair, transparent, and effective organizational structure, decision processes, and people. The quality of the governance of a firm is as dependent on the organizational structure and decision making processes of the firm, as to the quality of the key people that make up the board and the management team.

They defined corporate governance as it refers to the quality, transparency, and dependability of the relationships between the shareholders, board of directors, management, and employees that define the authority and responsibility of each in delivering sustainable value to all the stakeholders. In order to attract financial and human capital to the corporation and to ensure sustainability of value creation, the governance mechanisms should ensure to gain the trust of all stakeholders.

The essence of good corporate governance is ensuring trustworthy relations between the corporation and its stakeholders. Therefore, good governance is defined by Dr. Yilmaz Arguden (2010) as ‘Good governance is a lot more than compliance. It is a culture and a climate of consistency, responsibility, accountability, fairness, transparency, and effectiveness that is deployed throughout the organization.’

Thus, their Proposed Principles of Corporate Governance are embedded in the Initials of the words mentioned above in order to define Good Governance as Consistency, Responsibility, Accountability, Fairness, Transparency and Effectiveness or with abbreviation “CRAFTED”
Dr. Yilmaz Arguden, Pinar Ilgaz, Burak Ersahin (2010). They also defined the LOGIC of the governance as Initials of Learn, Oversight, Guidance, Information, Culture in order to explain the role of the board of directors into Corporate Governance. Because they believed that the board of directs is the most important element in corporate structures.

However, the core of the developed and proposed model by Dr. Yilmaz Arguden, Pinar Ilgaz, Burak Ersahin is to appraise how the “CRAFTED” principles are applied to “LOGIC” of governance.

According to Arguden (2010), main elements of corporate governance are: consistency, responsibility, accountability, fairness, transparency, and effectiveness that are deployed throughout the organization. Companies have an effect in mobilizing not only their own resources, but also the resources of others in the value chain. For this reason, consistency of the policies creates the right expectations in the value chain and helps the value chain to be stronger as a whole. In order to create value, a balanced risk taking and making difficult decisions on a timely basis are essential. Therefore, decision makers at all levels should assume the responsibility to take initiative and be accountable for their decisions. Each decision requires balancing the interests of different stakeholders. Those who are deemed to be fair in their decisions are able to establish longer term relationships which are critical for long term sustainable development.

Every company needs to gain the trust of others both in financial resources and for all resources which create value. In order to gain trust, it is crucial to have Transparency. If the mobilized resources are not used effectively, it would not be possible to mobilize additional resources. Therefore, effectiveness and the communication of effectiveness have very important role for long term success. Each decision maker within the organization has an important mission in order to establish the reputation of the corporation, thus deployment of
these principles throughout the organization is important for having successful corporate governance. As each decision maker within the organization has an important role in establishing the reputation of the corporation, deployment of these principles throughout the organization is important for having successful corporate governance.

2.3 Strategic Governance

As we have spoken of above, we first defined the ‘Manufacturing Strategy’ and ‘Corporate Governance’ in order to clarify the explanation of ‘Strategic Governance in Manufacturing Firms’. Hence, we continue with studying on Strategic Governance itself towards the studies done before and also our knowledge accumulation.

Strategic governance is an institution or a corporation element of building strong, flexible and sustainable organisations that are clear about the contribution they make to people and communities. (MSD Organisational Capability Self-Assessment Tool - Version 1: January 2013). Also, as we learn from the Queensland Government Treasury (2003): “Strategic Governance is considered to encompass the processes by which the enterprise is managed at a strategic level.” (Queensland Government Treasury, 2003)

2.3.1 A Strategic Governance Model

We looked for the existing strategic governance models but it was extremely hard to find the one that comprises all businesses and strategies and especially as our focus which is manufacturing firms. After a long search, we came across a Strategic Governance Model made by Leo De Souza in 2009. He better explained everything, hence we will interpret and discuss this model based on our studies. This model is crucial because it focused on the modern businesses. It mostly focused on IT services regarding the increase in the importance of IT in the World. So, we thought that this model is the most suitable for our study.
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The model has 3 axes – Funding, Support and Control. The axes range differs from centralized to decentralized. According to (Leo De Souza, 2009), it is important to define these scales.

- **Funding;** where does the funding coming from. If the funding coming from business units, that means funding is externally funded.
- **Support;** defines where the support coming from on a process of centralized to decentralized. For example, Enterprise is supported by technology work (IT services).
- **Control;** explains where does the control reside, has a component of risk management. And where it comes from on a process of centralized to decentralized (where in the Institute does the responsibility and accountability reside).

After these three axes or scales identified, there are 4 Categories based on Enterprise Architecture to explain the Model.

**Enterprise** – demonstrates the planned, budgeted and fully supported technical infrastructure for both administrative systems. Service levels are well defined. IT Services has full responsibility for funding, control and support. Enterprise Architecture has critical role on this category. Manufacturing Industry should be considered in Enterprise category of this
Strategic Governance Model created by Leo De Souza. This category is centrally funded, centrally supported and centrally controlled in the Model shown in Figure 2.

**Departmental** – it is departmentally funded, departmentally supported and departmentally controlled and it represents those installations unique to a school or department for which IT Services has made special support arrangements. They are not enterprise as they do not serve common needs across the institute. They are not necessarily innovative as they represent core systems within a department. IT Services has joint responsibility based on Service Level Agreements. Enterprise Architecture has an approval and consulting role.

**Innovative** – project funded, departmentally supported and departmentally controlled represents initiatives related to research and investigation of new and evolving technologies. Service levels are defined in consultation with IT Services. Service levels may be lower than those provided in the mainstream, base funding in the short term may not be available, IT Services acts in a consultative and partner role. Activities may move into the Enterprise if they have proven, longterm benefits. Enterprise Architecture has a consulting role.

**Opportunistic** – externally funded, departmentally supported and departmentally controlled represents activities that are unanticipated yet they closely align with the strategic plan of the Institute. No support services are available. Funding for technology, infrastructure, software, expertise, technical support and instructional support etc, is provided through external means (i.e. grants, external contracts etc). EA has a consulting or guidance role.
3. Literature Review on Business Model

3.1 Definition of Business Model

It is meaningless without starting to define Business and Model before proposing and explaining Business Models in this dissertation. Therefore, we cared about the definition of Business Models from very general to specific focuses with the help of studies in last twenty years in order to bring in wealth of different views on Business Model.

As we get these definitions from the online version of the Cambridge Learner's Dictionary (Cambridge 2003) explains Business and Model as follows below:
• business: the activity of buying and selling goods and services, or a particular company that does this, or work you do to earn money.

• model: a representation of something, either as a physical object which is usually smaller than the real object, or as a simple description of the object which might be used in calculations. (Cambridge, 2003)

We would like to continue for the definitions of Business Model with Paul Timmers who works for the European Commission, was one of the first to luculently identify and categorise business models (Timmers, 1998). He deems a business model as the architecture of the product, service and information flows, including a description of the various business actors and their roles and a description of the potential benefits for the various business actors and a description of the sources of revenues. In order to figure out how an enterprise realizes its business mission he includes a marketing model that is the combination of the business model and the marketing strategy of the business actor under consideration. Like Timmers, Weill and Vitale (Weill and Vitale, 2001) define a business model as a description of the roles and relationships among a firm’s consumers, customers, allies and suppliers and it identifies the major flows of product, information, and money, also the main benefits to participants.

In fact, it is evident that since we work on Strategic Governance to Business Model and Integrated Systems to Business Model for this study, it would be nicer if we classify Business Model definitions into three categories as Main, Operational and Strategic. FMorris & Schindehutte (2005) explains that business model can be defined on three levels. At the most first level, business model is describes “a statement of how a firm will make money and sustain its profit stream over time”. At the operational level, business model states that it is “the design of key interdependent systems that create and sustain a competitive business”. At the strategic level, business model pays attention to “overall direction in the firm’s market positioning, interactions across organizational boundaries, and growth opportunities”. Morris & Schindehutte
(2005) provides a general definition: “a business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets” (2005).

For sure, after these definitions, we would like to add the description of Osterwalder (2004) on business model which is more complete definition on it, that in his work of thesis explains that: “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 to one or several segments of customers 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” (2004). Chesbrough and Rosenbloom (2002) made connection between technical and social domains in order to define Business Model and value creation. They pointed at the importance of understanding the Business Model with defining the Economic and Technical outputs. This helps to have idea about the market, value proposition, value chain, cost and profit, value network and competitive strategy. According to Chesbrough and Rosenbloom (2002), the business model mediates between the technical and economic domain. (Figure 3)

![Diagram](image)

**Figure 3:** The business model between the technical and economic domain (Chesbrough and Rosenbloom, 2002)
Shafer, Smith and Linder (2005) describe a business model for value creation and capturing within a value network. Moreover, they made a study about the characteristics of business model and they created a table of general features versus business model. (Table 1)

Table 1: General features versus business model (Shafer, Smith and Linder, 2005)

According to Weill et al. (2005), a business model explains two elements: (a) what the business does (b) how the business makes money with doing and applying these things into the structure of the company.

Bocken, Short and Evans (2014) advocates that a business model is defined by three main elements: the value proposition, value creation and value capturing. Value creation is at the heart of any business model: businesses typically capture value by opening new business opportunities, new markets and new revenue streams (according to Beltramello et al., 2013; and, Teece, 2010). On the other hand, the value proposition is concerned with the product and
service offering to generate economic return. The value proposition would provide measurable, ecological and social value connected with economic value in a sustainable business (Boons and Ludeke-Freund, 2013). Value capture is about considering how to earn revenues from products, services or information to users and customers (Teece, 2010).

Gudiksen (2015) the chosen approach has perspective upon the creation of a business model as a design problem that is a wicked problem without any immediate path to a solution. And, business model design games are proposed as a way to explore and solve such problems. It provides an integrated approach and an understanding that working with value creation (e.g. product development), does not makes sense without experimenting with how these products can be delivered internally and externally and how they can capture value for the firm.

3.2 Features of Business Models

“Whenever a business enterprise is established, it either explicitly or implicitly employs a particular business model that describes the design or architecture of the value creation, delivery, and capture mechanisms it employs” (Teece, 2009: 172). In the purpose of our work, we consider the Business Model as the systemic and synthetic representation of the origin of the added value of a company and of its shares between the different parties, over a specific period and over specific activities. It is a reference document which presents the features of a firm in order to establish and protect its sustainability and proficiency over the time. For the same reason the Business Model reveals the company’s capabilities in term of objective definition and positive outcomes generation. This can be seen considering the sole activity of the firm, but its evaluation should be also done in the comparison between the other firms competing in the same industry, at local and at national level.
In order to create the Business Model, the main aspects of the organisation activity are analysed, from its aim (for example the final goal, the offer and the strategy) to the resources and the used means (namely the infrastructure, the organisation, the dissemination or distribution practices and the functioning process and rules). When a company or an activity is going to be created, the Business Model is a very useful exercise, because it gives a complete overview about the main objectives of such firm and its capability to create an added value in a given time. The structure of the Business Model should not be confused with the redaction of the Business Plan. The second is, in fact, created after and it is useful in order to communicate the content of the action plan and to announce of the variety of the concrete and operative decisions.

Thus, the Business Model has to furnish to the company a proficient perspective about the mission, its strategies and the measures it will adopt; moreover, it has to establish the priorities, the intentions and the decisions not only in a general way, but also considering the actual or predictable competitive scenario in the local and in the global market. This is why, this model has to describe the contents, the structure and the governance of the conceived transaction in order to produce an added value through the exploitation of the business. If the importance to create added value was true also in the past, it seems to gain relevance in the current economic environment, where there are relation more and more complex and articulate. There are different kinds of Business Models that can be discussed considering their pros and cons, among the others we have chosen the four most relevant in the current global system.

1. The “Direct selling” model is the oldest kind of transaction between actors. It implies the possibility for a producer to sell its merchandise to a final consumer. Such kind of transaction can be found in the short supply chains (e.g. the farmers’ markets). Even if the possibility to reach a great number of consumers is not the
main feature of this model, the direct selling model is becoming very popular because of the crisis. Actually it offers the possibility to negotiate with the seller and to be sure of the origin of the product (overall for the food and agricultural product). The link between crisis, social challenges and direct selling, has been underlined by Lobao and Meyer (2007) in a paper titled “The Great Agricultural Transition: Crisis, Change, and Social Consequences of Twentieth Century US Farming”. The “Brick and clicks” model: it refers to the e-firms proposing sales complementary process, namely the internet sales and the traditional ones (in shops or in point of sale). Examples can be Italian “Trenitalia” or the French “Fnac”. Nowadays the biggest part of firms has created an integrated model of physical and virtual business. The main positive features of this model is the possibility to establish a double presence (or a triple or quadruple if we consider the phone ordering or the phone apps) on the global market and reach a bigger part of consumers or potential ones. A major disadvantage for firms can be the fact that the costs control (represented by the stores and the human capital) requires a bigger expenditure than the pure player model (only based on the e-commerce).

2. The “Disintermediation” model: it implies the annulment of the traditional sale channels, through the use of e-commerce tools. The main advantage of such kind of business model (used for example by “Amazon”), is the possibility to encompass the costs related to the direct selling (the shops, the distributors and the resellers) and to produce the goods and the services on-demand, increasing the profit margins. This model is becoming the most important form of business also thanks to the spatial revolution given by the accessibility to of the telecommunication networks.
3. The “Franchising” model. It implies a commercial and juridical agreement between a company called “franchisor” and a second firm, called “franchisee”: the first one have to furnish the know-how, the brand, a permanent assistance (the supplier’s trademark) to the second, after economic compensation (namely the supply fees). The main inconvenient for the franchisor is that its success depends from the success of the franchisees and it is a very risky operation. The main pro is the possibility to gain from a capillary dissemination on the territory and a diminution of the business costs (overall the storage and sale of the perishable merchandise). Not surprisingly, the major firms using the “franchising” are Subway, McDonald’s, Kfc and Burger King.

3.3 Business Model Frameworks

Many studies and researches have been proposed on Business Model in order to clarify the Business Strategy and create a connection between Business Strategy and Business Model.

From a perspective of some studies, BM components comprise assets, markets, customers, competitors, products, services costs, prices, revenues, profits, economic scales, marketing strategies, competitive strategies (Yu, 2001).

Chesbrough (2010) recommends that Business Models manage the functions as emphasizing the value proposition and detailing the market segment, value chain, revenue, cost and profit structure, the firm’s position in the Business and Competitive Strategy.

As we defined and explained some definitions of Business Model in the ‘The definitions of Business Model’ above, we would like to expand these definitions in order to choose a proper model for this study. Therefore, some definitions of business models emphasize the design of the protocols of a firm in value creation (Amit and Zott, 2001), the mixture of the value stream for buyers and partners, the revenue stream, and the logic of product and service
stream (supply chain design) (Mahadevan, 2000), and the firm’s main logic for value creation (Linder and Cantrell, 2000). In order to integrate all these definitions about business model and business model framework, (Osterwalder, Lagha, and Pigneur, 2002) suggest an e-business framework with four dimensions: the products and services a firm offers, the infrastructure and network of partners, the customer relationship capital, and the financial aspects.

There are four pillars and nine parameters to settle a business model (Osterwalder, 2004). According to this framework, a business model must focus on four core areas, as the offering, infrastructure management, customer and financial. Offering illustrates how the firm operates, the message of value proposition is expected to deliver to the customers. It is pointed that value proposition is the core of these framework and it should be correlated with each parameter. Infrastructure management defines how to company is in collaboration with external connections or interrelationships with other companies. Customer dimension shows the focus on which customers are important and must be targeted and how to attract them with delivering the value proposition message. And the last one, financial, is for identifying and arranging the profit/cost structure, revenue streams in order to capable of meeting with the financial goals of the company. The nine parameters defined of these four main pillars are key activities, key resources, partner network, value proposition, customer segments, channels, customer relationships, cost structure, revenue streams. The four main pillars, parameters and their descriptions are linked together in the following table:
<table>
<thead>
<tr>
<th>Pillar</th>
<th>Parameter</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>Key Activities</td>
<td>Main activities for creating value for the customers</td>
</tr>
<tr>
<td>Management</td>
<td>Key Resources</td>
<td>Main Resources used in order to attract customers for value creation</td>
</tr>
<tr>
<td></td>
<td>Partner Network</td>
<td>Inter companies relationships for delivering the value to the customers</td>
</tr>
<tr>
<td>Offering</td>
<td>Value Proposition</td>
<td>Company’s bundle of products and services that are for value creation and value capturing.</td>
</tr>
<tr>
<td>Customer</td>
<td>Segments</td>
<td>Customers that company would like to serve</td>
</tr>
<tr>
<td></td>
<td>Distribution Channels</td>
<td>How to deliver the company’s products and services to the customers</td>
</tr>
<tr>
<td></td>
<td>Relationships</td>
<td>Tangible and intangible connection between the company and its’ customers</td>
</tr>
<tr>
<td>Financial</td>
<td>Cost Structure</td>
<td>Representation of all means employed in business model based on money</td>
</tr>
<tr>
<td></td>
<td>Revenue Streams</td>
<td>How the firm makes money through selling its’ products and services</td>
</tr>
</tbody>
</table>

**Table 2: Osterwalder’s (2004) Business Model Ontology**

However, the Balanced Scorecard methodology developed by Kaplan and Norton (1992) has some similarities to Osterwalder’s Business Model Ontology. For this reason, it can be useful to compare these two ontology and methodology or show the similarities. Osterwalder’s business model ontology is said that it was inspired by the Balanced Scorecard especially by
means of focusing not only financial terms but covering all the business concept (Osterwalder, 2004).

The balanced scorecard is created for strategic planning and management system that can be used in business and industry, government, and non-profit organizations to compose business activities to the vision and strategy of the organization, develop internal and external communications, and organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

In the 1950s, a General Electric staff team made a project to improve performance measures for 5 GE’s decentralized business units (Lewis, 1955). This team suggested one financial and seven non-financial parameters. These are profitability, market share, productivity, product leadership public responsibility, personnel development, employee attitudes, the balance between short and long objectives, respectively.

Thus, the roots of the Balanced Scorecard come from these eight parameters identified by GE project team. So, the financial perspective of the Balanced Scorecard is represented by the first metric which is profitability, while the second metric is suitable for the customer perspective, from the third to fifth is for process, sixth and seven is organizational capacity while the last metric comes up to the core of the Balanced Scorecard which is vision&strategy.
Finally, after we defined both Osterwalder’s business model ontology and the balanced scorecard, we showed the similarities between these two business models on Table 3.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Management</td>
<td>Internal Business Process</td>
</tr>
<tr>
<td>Offering</td>
<td>Organizational Capacity</td>
</tr>
<tr>
<td>Customer</td>
<td>Customer / Stakeholder</td>
</tr>
<tr>
<td>Financial</td>
<td>Financial / Stewardship</td>
</tr>
</tbody>
</table>

**Table 3:** The Business Model Ontology and The Balanced Scorecard (Osterwalder, 2004) (Kaplan and Norton, 1992)
4. Literature Review on Manufacturing Industry

4.1 Introduction

Nowadays the global market is characterized by an important and diffused competition between the economic actors, technological evolution and customers’ needs. This situation often creates a more turbulent, riskier, more intricate environment. In this challenging, risky, difficult and hyper-competitive circumstances, according to some scholars (Singh, Garg and Deshmukh, 2007) the manufacturing firms, should be able to challenge the other actors, according to all the dimensions of competitiveness such as: low price, fast delivery, high quality, flexibility in volume product. According to others (among the others, Sanchez and Perez 2005), who commonly refers to manufacturing systems scientific literature, the flexibility seems to be an intricate and a multidimensional concept, which is very difficult to summaries. If we refer to the different scientific articles which proposed flexibility taxonomies, we can outline several aspects of the mentioned concept: we can divide the aspects in functional ones (if we consider the flexibility in operations, in marketing and in logistics); secondly, we can find hierarchical aspects (such as the flexibility in all the stages of sale-chain: at shop, plant or company level); thirdly, it is possible to notice the measurement aspects (those aspect focus on the general flexibility measures, and do not consider the context specific ones); fourthly we can underline the strategic aspects (based on the strategic relevance); then, there are the time horizon aspects (which consider the long-term and the short-term flexibility); finally it is possible to individuate the object of change (meaning the flexibility of the product, its mix and its volume).

In order to offer guidelines about the critical capabilities to the leaders of manufacturing firms, it is important to give a distinction between the rules that they need to respect in the global market and the Global Competitiveness in manufacturing initiative. There are three
rules that need to be understood by the manufacturing firms’ leaders according to Giffi et al., 2013). This analysis has been done by the authors, considering the sources of a sustained and superior performance of 25,000 companies, among different years.

- The first rule is: do better before be cheaper. This rule implies that the companies should build a competitive position through an important differentiation inside the brand, the style, or the reliability. If they follow this rule they will drive superior performances, more than the firms that choose to gain the competition on the global market based on price leadership.

- The second rule is profit before expense. It means that the companies should seek higher advantages through higher unit prices or volumes. This simple rule allows them to obtain a better profitability if compared to the firms that seek advantage only with the progression of structural cost advantages.

- The third rule is that there aren’t other rules and every other suggestion can be followed. It is important that the companies seek to achieve a superior and a sustainable work through the differentiation on the market and to improve the competitive advantages through revenue improvement.

Giffi et al. (2013) consider that a key challenge for administrations is to consider the different features of their firms in order to achieve important effects. The Global Competitiveness in Manufacturing (GCM), in this sense, tries to find those answers for the manufacturing companies. The GCM initiative’s goal is to understand which kind of capabilities high performing manufacturers should view. Those capabilities, are, in fact, essential to achieving higher future outcomes. The authors have considered 43 capabilities, and they asked to the administrators to rate the capabilities according to their relative competitive position. The capabilities have been categorized according 4 different groups: the groups have been
constructed through the different ratings organized by the CEOs considering the most and the least companies:

1. Qualifiers: they are the capabilities that not imply a substantive difference between high performers and the other firms.
2. Being challenged: these capabilities imply the possibility for performers that currently have a superior advantage. They have to know that it is possible to be challenged by other manufacturers, who could reach them and finally close the gap.
3. Creating advantage: this capability implies that the superior performers can have significant benefit over other firms in ongoing activities.
4. Game-changers: in this sense a firm continue to lead if it has the capability to stand apart from the pack.

According to the study conducted by Giffi et al. (2013) all manufacturing companies, are in unison about the importance that these capabilities have on the future: the considered higher performance firms have a similar level of competitiveness for currently activities (Giffi et al., 2013).

4.2 Competitiveness

Competitiveness is capability to participate in the global economy in a useful way. This participation seek to generate added value and can concur to create jobs, according to Padilla and Juarez (2007). Several economists have given definitions of competitiveness and the summary of these explanations is given in the following table.

The terminal element of competitiveness is the possibility for the company to have a long-term performance considering its organization if compared to its competitors. Thus, according
to Singh, Garg and Deshmukh (2007), the firms to obtain a sustaining competitiveness should face to the many pressures and restraints given by their resources of finance that could be limited, the skilled manpower and the leading technology.

If we consider the work of Cruz and Rugman (1992), we can understand that the competitiveness is a multi-scalar concept: it has to be seen considering the country, the industry/sector and firm. In the same sense, Padilla and Juarez (2007), considers the competitiveness at several levels (the firm, the region, and the industry or the nation): this approach has a central role in the R&D companies’ agenda. Latin American countries, which have open and integrated economies, the improved competitiveness is essential in the production chains, in order to attain the greatest economic and social progression.

According the scholars, the investments in human capital are crucial if the firm want to create, improve and sustain the comparative dynamic advantages, and offer a substantive potential if considered the terms of economic and social development. Nowadays, in an economic environment where the continuous and quick technological change is dominant, is should aim to create human capital in order to strengthening its competitiveness.

So, the competitiveness can be considered by different angles of analysis. McFetridge (1995), considers that it can be analysed according to its static competitive advantages (for example the abundance of natural resources or the flexibility of the wage price). It can also be considered in terms of comparative advantages which result from the introduction of innovative and performing products or, finally, by the characteristics of the production capacity, namely the creation of new kinds of corporate organization.
<table>
<thead>
<tr>
<th>SN</th>
<th>Competitiveness connotations</th>
<th>Researchers</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>Superior manufacturing performance leads to competitiveness</td>
<td>Leachman et al. (2006)</td>
</tr>
<tr>
<td>ii</td>
<td>Firm’s competitiveness is dependent on its ability to provide goods and services more efficiently than others involved in the market place</td>
<td>Ajitabh and Momaya (2001)</td>
</tr>
<tr>
<td>iii</td>
<td>Competitiveness comes through a process by which one entity strives to outperform another through the use of various resources and capabilities</td>
<td>Hitt et al. (2001)</td>
</tr>
<tr>
<td>iv</td>
<td>Competitiveness is a concept comprising of the potential, the process and the performance</td>
<td>Economic Times (2001)</td>
</tr>
<tr>
<td>v</td>
<td>Competitiveness is a combination of assets and processes, where assets are inherited or created and processes transform assets to achieve economic gains from sales to customers</td>
<td>DISR et al. (2001)</td>
</tr>
<tr>
<td>vi</td>
<td>To be competitive, several factors must exist: the desire to win, commitment or perseverance and the availability of certain resources</td>
<td>Khalil (2000)</td>
</tr>
<tr>
<td>vii</td>
<td>Competitiveness is defined in terms of “helping business to win”, “price”, product range and quality and “distribution and marketing”</td>
<td>Dou and Hardwick (1998)</td>
</tr>
<tr>
<td>viii</td>
<td>Competitiveness refers to the relative position of an organization against its competitors</td>
<td>Cho and Moon (1998)</td>
</tr>
<tr>
<td>ix</td>
<td>Competitiveness involves different attributes like comparative advantage and price competitiveness perspective, strategic and management perspective, as well as historical and socio-cultural perspectives</td>
<td>Waheduzzaman and Ryans (1996)</td>
</tr>
<tr>
<td>x</td>
<td>Competitiveness is the ability of the organization to stay in business and to protect the organization’s investments, to earn a return on those investments and to ensure jobs for the future</td>
<td>Pace and Stephan (1996)</td>
</tr>
</tbody>
</table>

**Table 4:** Some definitions of competitiveness (Singh, Garg and Deshmukh, 2007)

McFetridge (1995) makes an analysis on the competitiveness of individual firms, considered in a local or regional market: it can be ascertained by making a comparison between them and their local or regional rivals. In the same sense, comparing the same industry with another region or another country with which it trades or it will be trade, it is possible to analyse the industry’s competitiveness. So, the competitiveness of an industry is defined only when we consider its competitiveness in an interregional or internationally asset. The competitiveness of an industry is given by the analysis of the competitiveness degree of the biggest firms in this specific industry. The specific industry’s competitiveness is given by a sum of profitable and sustained firms. In fact, such as for the industry level, all the indicators of competitiveness (such as costs, profits and productivity) can be used at the firm level too.

Giffi et al. (2013), as they illustrate in the following figure, consider that high performers’ capabilities are likely to fall into 10 general clusters of competitive capabilities. The position they have on the graph indicates the real competitive characteristic of high-performing
manufacturers. So, the idea that the innovation drive (the “talent driven innovation” group) indicates the capabilities related to the investment in human resources and skilled workers, know-how and innovation, R&D, product development, and all the capabilities helping to bring rapidly new outcomes and services to the global market. In the same sense, the “global new customers and new markets” group tends to include the global sales, distribution, logistics, global marketing capabilities, such as all the capabilities that will help in the penetration and the growth in new markets.

Figure 5: The 10 clusters of manufacturing competitiveness (Giffi et al., 2013)
CHAPTER THREE

1. Integrated System for the Business Model (ISBM) and the Model Proposed - Strategic Business Governance Model

The model proposed by Batocchio (2015). This model is entitled “Integrated System of the Business Model” (Figure 2).

![Figure 6: Integrated System of the Business Model (ISBM) (Batocchio, 2015)](image)

This model has three modules: Strategic Governance (SG), Business Model (BM) and Performance Management (PM).

- **Strategic Governance (SG):** In this module is showed the main characteristics that are crucial for the governance process. As we explained in Literature Review of Strategic Governance of Chapter 2, Strategic governance is a foundation element of building robust, flexible and sustainable organizations that are clear about the contribution they make to people and communities. A strategic governance board is focused on the future while operating in the present. It operates in a transparent and accountable way to (MSD, 2013):
o oversee and protect the organization’s vision, mission, values and resources;

o recognize environmental indicators of change, uncertainty and opportunity;

o identify and manage opportunities, risks and legal compliance;

o support the organization to adapt and remain relevant;

o drive the organization’s future direction, including shifts in focus and/or positioning to meet changing needs.

• **Business Model (BM):** This is a main module ("heart of the system") and it will get features that are obtained of the table 1 (only one example this table). For this module, we presented the Literature Review of Business Model with giving some examples as frameworks of the most used and the most known such as Business Model Ontology of Osterwalder (2004). Beside of that, in this chapter, we tried to analyse business model and conclude some elements related to Strategic governance. Furthermore, beside Business Model is the heart of Integrated System of the Business Model, it is also main component of our proposed model shown in the following.

• **Performance Management (PM):** In this module, the aim is to analyse of the methodology Balanced Scorecard (KAPLAN & NORTON, 1996) and other methods with the focus to identify which points or characteristics of these methods are important to the model Integrated System of the Business Model. We believe that features of the Balanced Scorecard, like this: financial, clients/consumers, intern process and, learning and growing could be elements of the module. These characteristics are entitled “Balanced Scorecard Perspectives” are very helpful and especially to characterize an excellent performance management system. In the figure 4 we can see the perspectives of the Balanced Scorecard.

In sum, we can consider that the “Integrated System of the Business Model” concerns the possibility for a firm to improve its profitability: in this sense it is possible to notice that this
system has a heuristic logic and its’ seek to capture value from all the different stages of the business. It implies the innovation in technology, the improvement in research and development, but also the importance of the governance process and all the stage of the performance chain: it is a sort of a road map to help our businesses and investors to adapt to the complex and variable reality of global market.

Actually, in order to have proficient results from that model, all the dimensions of the ISBM have to seek the best result. It means that the firms’ managers have to consider the key elements of the model to improve the competitiveness of the company in the local and in the global market. Specifically, it means that they have to provide strategic and integrate direction, with respect of the different services and projects. They have to drive maximum business value and be sure that the processes that are in place, ensure the risks and have been appropriately managed.

All these elements that concern internal and external factors, the strategy and the resources allocation, the current performance and the future outlook, the risks and the opportunities are highly interconnected and help the organisation to clarify the positive and negative impacts of this model on financial and human capital. Moreover, the ISBM, and its ex-ante and ex-post evaluation, can help the managers to provide new strategic objectives that will help the firms to prompt changes to the business model and strategies, in a more systematic view of the concepts of value chain and outputs creation, according to the organisation mission and overview.

Only considering those factors, on an integrated survey of current practices, activities and economic relationship it is possible to perform, by the application of the “Integrated System of the Business Model” a sustained economy, which will drive profitability to the company and seek to improve revenue generation, achieving the strategic objectives.
2. Development of the Proposed Model of Strategic Governance for Business Model in manufacturing firms

The manufacturing sector can be considered as the sector where the raw materials become physical products. This process involves different people, different places and different technologies: this process in the key factor of a broader value chain. If we make a look on the UK Government “Future of manufacturing: a new era of opportunity and challenge” report, we can read that “Manufacturing in 2050 will look very different from today, and will be virtually unrecognisable from that of 30 years ago. Successful firms will be capable of rapidly adapting their physical and intellectual infrastructures to exploit changes in technology as manufacturing becomes faster, more responsive to changing global markets and closer to customers”. This element analysed by the UK government economists, give us the opportunity to reflect about the significance of a Strategic Governance for Business for these specific firms\(^1\).

According to some scholar (among the others Gebauer et al., 2010) in order to create competitive advantages generally, manufacturing firms, try to introduce services in the intrinsic value. The process, which for example, concerns the service infusion, reveals that the services are evolving a lot and they are becoming one of the biggest parts of firm offering. Moreover, always according to the authors, the services seem to have repercussions on the internal firm organization.

If we put the attention on technology, especially referring to the work of Oliva and Kallenberg of 2003, we understand that the products and their exchange value create the tradition to incorporate free services in the product sales, overall in manufacturing firms. In this sense for the firms which add some free-services (in term of transport, customer assistance or other) to

\(^1\) The complete report can be read at the following link: https://www.gov.uk/government/publications/future-of-manufacturing/future-of-manufacturing-a-new-era-of-opportunity-and-challenge-for-the-uk-summary-report
the proposition value, there is an important questioning about the consistency of the product-based business model with its general competitive advantage.

Ten years later, in 2013, Visnjic Kastalli and van Looy showed that the increment of service sales could definitely have a positive effect on the sales of the manufacturing firms. This analysis suggests that charging separately the services can have a dual effect. So, though the examples mentioned above, in the current evolutive business environment for manufacturing, it is important to consider all the features of the Strategic Governance for Business Model in order to have a general and holistic competitive advantage.

So, in order to enhance the firm performance, the Model can be used to modify the content of some activities (for example the addition of new ones), the structure of the business model governance (for example the addition or the diminution of the number of the policy-makers) or the structure of the activity (considering, for example, new markets or new transports). In this sense the innovation of the business model (which concerns managers, experts and entrepreneurs) represents a future source of value, which is often underestimated. This is because often the competitors could find more difficulties in imitating or replicating the new activity system, more than the single product. Moreover, since for manufacturing firms it is easy to undermine the returns of innovation for a single product, the business model innovation can be translated into a more sustainable competitive advantage, revealing that the Governance Business Model innovation is an important competitive tool. In this sense, the UK Government report defines four key features of an innovative Strategic Governance for Business Model in Manufacturing Firms, considering that the company should be:

- Faster, more responsive and closer to customers (in order to enhance the traditional market)
- Exposed to new segments of market (to improve its presence on the global market)
• More sustainable (to manage a long-term planning)
• Increasingly dependent on highly skilled workers (to promote R&D and quality)

In the light of these explanations, we thought that Strategic business governance model is aimed at gaining and increasing the sustainable competitive advantage. So, in addition to Batocchio’s ISBM (2015), we would like to provide another model named ‘Strategic business governance model’. In this model, Business Model is again ‘the heart’ of the model that is essential for this model crafted. If a firm applies Business Model into their structure of the company, they will have the chance of increasing productivity, profitability, sustainability, value creation and capturing (innovation), adoption to changes while they have the possibility to decrease costs (both fixed and variable costs) and non-value added activities. But we thought that it was not enough just work on Business Model, hence strategic decisions should be taken in order to govern and apply these Business Model studies into the structure of the company. And also, Strategic Governance will help to deploy the decisions made by Business Model through departments in the company. So, each employee has a responsibility to use these decisions and maintain on them. After all, we believe that the company will have customer satisfaction and this will bring the company to gain competitive advantage in a strong competitive manufacturing environment.

So, we can summarize what the components, elements and outcome are on the table (Table 5). As we already explained and provided literature review on the components of Strategic Governance and Business Model, hence we would like to continue to describe each element on our Strategic business governance model.
1- Productivity: The report of Conference Board Productivity Brief (2015)\(^2\) pointed on the importance of productivity in the World. In this report, we can see the increases and decreases of productivity between years that the report emphasized on the investments of R&D and e-business. Thus, decision making process of these investments are relied on a good Strategic Governance and well defined Business Model.

2- Manufacturing Efficiency: According to the report of DBA Software Inc. named ‘Manufacturing Efficiency Guide’ (2015), manufacturing efficiency relies on two important elements: First one is to fulfill customer orders quick and reliable while the second one is using the least amount of inventory and Work in Progress (WIP). Strategic Governance has a role on manufacturing efficiency based on making decisions to govern the departments after defining the customer needs and wants for ordering process.

3- Value Creation + Capturing (Innovation): “value creation” is about idea generation considering and understanding the individual and targeted segment needs (Management of Innovation course notes – Politecnico Di Milano, 2014). “value capturing” is about the relationship between the firm level and the individual level. It is about perception of individual level and defining this perception in the firm level with the help of Strategic Governance and Business Model (Mygind, 2009: 162).

4- Sustainability: Last two decades the number companies, organisations, non-governmental organisations of working to point at sustainability impacts has grew dramatically (ACCA Sustainability Paper, 2014). Actually the future of other elements is depending upon sustainability that it is important for a company to have objectives

\(^2\) The complete report can be read at the following link: https://www.conference-board.org/retrievefile.cfm?filename=The-Conference-Board-2015-Productivity-Brief.pdf&type= subsite
for the next years in terms of productivity, service, quality, also energy and environmental responsibilities in order to manage a long term planning.

5- **Profitability**: This element helps us to understand that companies can be more profitable if they invest and enlarge their sales channels to the other areas. And also, after doing a market research, they can invest for other businesses which are more profitable than the current ones. Strategic Governance and Business Model assist on profitability for doing market research and to find the right market to invest.

6- **Adoption to changes**: This element is crucial because we started to think about this dissertation how a manufacturing firm can adopt the quick changes in the World. Change content strategies refer to what in your organization needs to change strategy, structure, systems, technology, business processes, products, services, and culture. Therefore it is needed to have a correct way for Strategy and implement this into Business Model in order to apply in the management of enterprise.

7- **Costs**: These are both fixed costs and variable costs of the enterprise. So, we can say that this element is related to the also Non-Value Added Activities. A good governance and a Business Model have power on decreasing these costs. For example, if we consider an investment of the enterprise, a good market research, a sustainable planning creation would help to decrease these costs.

8- **Non Value-Added Activities**: One process comprise of one or more activities and, as a firm there are various departments or business units, and in each one there might be many processes, therefore there will be many activities. According to Reddy, Lingareddly and Jagadeeshware (2013), value is from the customer’s point of view, the customer is the one who gains the output. Value-adding resources are those which create value for the customer. Non value-adding activities are everything done in the process which afford no value for the customer but which they are forced to pay for
when they buy the product. Decreasing of these non value-adding activities will help to have customer satisfaction, so the enterprise will gain competitive advantage.

<table>
<thead>
<tr>
<th>COMPONENTS</th>
<th>ELEMENTS</th>
<th>OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3. Value Creation + Capturing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Sustainability</td>
<td></td>
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<tr>
<td></td>
<td>5. Profitability</td>
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<tr>
<td></td>
<td>6. Adoption to changes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7. Costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8. Non-value added activities</td>
<td></td>
</tr>
</tbody>
</table>

**Table 5:** Components, Elements and Outcome of Proposed Strategic Business Governance Model

**Figure 7:** Framework of Proposed Model: Strategic Business Governance Model (Original Contribution)
CHAPTER FOUR

1. Research Methodology

Case study is significantly useful to employ when there is a need to obtain an in-depth definition of an issue and analyze it (Crowe et al., 2011), also it is very flexible of all researches, allowing the researchers to identify and illustrate the problem and shows the way how the solution is found or must be done (Yin, Robert K., 1984).

This study on the role of Strategic governance for Business Model in manufacturing firms as a tool to identify insufficiency of using the components of our proposed model and trigger strategic re-planning follows a strategy balancing the inductive and deductive approaches (Aarikka-Stenroos and Sandberg, 2012)

Case study research enables a holistic approach for understanding of complex situation that do not easily distinguish from their contexts (Halinen and Törnroos, 2005; Yin, 2003) and allows the researcher to build new theory/ies and create new model/s or expanding existing ones.

In order to give more clear messages in this study, a case study was performed. The case is about analyzing the financial, operational and sales management while understanding the mentality of marketing and business strategies with questioning the role of Strategic Governance and Business Model in Benetton Group S.p.A which is a famous Italian company performing worldwide in the fashion sector.

Moreover, to obtain an in-depth knowledge about global market and competition dynamics, a case-study approach has been chosen: this methodology gives the possibility to have a stronger base to analyse the theoretical framework in a more complete, grounded, generalizable and accurate way.
During generating this case study, change management of the company is considered as crucial because this study is required to have long time interval. Thus, after we analyzed the company from the beginning, we started to go in depth for business strategy analysis for the last years.

2. Case Data Gathering

Case data were gathered from primary and secondary sources. Since Benetton Group S.p.A is one of the biggest firm in the fashion sector, there are many sources to gather information about their financial situation, operation and sales management. Besides, newsletters of Benetton, newspaper articles both Italian and international, market research reports were very helpful to gather data and prepare this case study.

During the research, we tried to investigate and find the answers for following questions in order to establish this case study: 1) How does the company’s financial situation fluctuate in last years? 2) How has been the company enlarging their sales channels? 3) How was the operations business model designed? 4) What are the key aspects of business and marketing strategy according to the management of the company? 5) What is the importance of innovation? 6) How does the company develop the studies on Strategic Governance and Business Model in order to gain competitive advantage? 7) What is the role of Strategic Governance in the management of the company? 8) What is the company’s differentiation strategy? 9) How do the elements of our proposed model (see Table-5) are perceived by the managers of the company?

We used multiple sources in order to assure whether the data is reliable and knowing the importance of “looking at data in multiple ways” (Eisenhardt, 1989; Yin, 2003); first we cared about to use internal formal reports (12) and external formal reports, documents from Borsa Italiana (3) and other reports from associations (2). Besides, secondary sources were used on
the case study – research reports (10), Internet pages (30), newspaper articles (12). The combination of these sources allowed to have “data triangulation” essential for trustworthiness in qualitative research (Bonoma, 1985).

3. Case Data Analysis

Preparation of this case study took three months starting from specifying and determining on which company is suitable to use for this thesis and compatible for our proposed model (see Figure 7). After we decided to proceed with Benetton Group S.p.A, we continued with searching for the sources from articles, reports, newspapers, company website and stock markets. In the light of these sources, the case study was written and case data analysis was carried out. In order to be sure whether the data is reliable, internal and formal sources were firstly taken into consideration. For the financial data, the reports of Borsa Italiana and annual financial reports of Benetton Group S.p.A were paid attention to.
CHAPTER FIVE

1. Important Aspect of the selection of the Case Study

In order to give more concreteness to this presentation of the Strategic Governance for Business Model in Manufacturing firms we decided to present a case study of a manufacturing firm that performed important and successful and sustained scores in the global market competition. So, the presentation of this case studies tries to details the strategies that an important manufacturing enterprise uses for the innovation of the business model. In order to obtain an in-depth knowledge about global market and competition dynamics, a case-study approach has been chosen: this methodology gives the possibility to have a stronger base to analyse the theoretical framework in a more complete, grounded, generalizable and accurate way.

Fast fashion sector, because of it volatility and its importance in Western Word, because of the diversification of raw materials, strategic capabilities, used technologies and human capital (also in different part of the globe), give us the occasion to deeply understanding about a very dynamic and competitive sector. In fact, the fashion sector present very imitable and replaceable product, So, to remain successful and sustainable, firms in fashion manufacturing sector have to be respondent to the changes in the global market according to the preferences of consumers. So, the analysed case study responds to the necessity to provide an organic view on the positive effects of Strategic Business model innovation for manufacturing firms.

Anyhow, as mentioned by Brealey and Myers in 2000 or Cochran and Woods in 1984, there isn’t a universal set of variable that helps the researcher to evaluate the financial performance of a given firm (in order to measure its performance and its relevance on the global market).

Anyhow, in the purpose of this work and according to eight elements productivity, adoption to changes, innovation, sustainability, efficiency, and profitability, costs and non-value added
activities we started to analyse the case of the Italian firm “Benetton”, the one of the most famous firm in fashion sector among the world.

2. Case Study

Benetton is an Italian family business, created in 1965 in the Treviso area by Luciano Benetton and his brothers. In 1969 opened the first foreign store in Paris and in the mid 70’s the brand exported nearly 60% of its production. Then the brand moved to Luxembourg becoming a quoted company, under the name of “Benetton Group Spa”.

**Benetton Group Financial Highlights**

![Table 6: Benetton Group Financial Highlights](Source: www.investors.benettongroup.com)
In the early 90 the brand is present in all continents (almost 120 countries) and in 1994 they create the “Fabrica” communication research centre\(^3\) in order to combine industry and culture. In the same period Benetton started to diversify its production for different categories, such as men, women, children and expectant mothers. It acquired other important firms in sport and in underwear sectors (such as like Kastle, Sisley, Nordica, Killer Loop). Benetton proficiency invested in high-tech design (overall in the site of Castrette). Nowadays the firm has a network of up to 6,000 stores worldwide, while headquarter is located near to Venice in Ponzano.

**Benetton sales channels**

![Figure 8: Benetton Group Sales Channels](Source: www.benettongroup.com)

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\(^3\) “The range of disciplines is equally diverse, including design, visual communication, photography, interaction, video, music and journalism. Fabrica is based in a campus centred on a 17th-century villa, restored and significantly augmented by renowned Japanese architect Tadao Ando.” See: http://www.fabrica.it/about/?lang=en_us
Benetton production is made by small or medium-sized contractors (often managed by ex-managers or employees) put in competition each other because of the fact that Benetton fixes the price and the delivery time: so it can gain from this competition and from the fact of enhancing and reducing the production according the market demand. This business model provides the permanence in the stocks of small quantities of commodities and at the same time of a timely response for the global market demand.

**Benetton’s Operations business model**

![Figure 9: Benetton Group Operations Business Model](Source: www.benettongroup.com)

Its production is not vertically integrated: in fact 80% of it is made outside, while just 20% is internalised. In this sense Benetton offers the following figures: 350 suppliers with more than 10,000 employees and almost 1000 internal employees. The fact of using contractors limit the
dispense on running costs, namely the starting investments in plans, the transportation costs but also the labour cost. Moreover, the decentralisation (overall in Hungary, Croatia, Tunisia, Turkey, Vietnam, Cambodia and Bangladesh) started in the middle-90s with a gradual shift from Italy to other countries is used for the proper manufacturing phases (where intensity work and the use of inexpensive machines are required); by the contrary the first phases of the production (such as cutting and dyeing) are not decentralised because they require high-investment equipment.

In the same sense, Benetton reduced the investment in the last phase of the business, skipping the intermediaries and creating a retail structure (throughout the presence of the “Edizione” company, a shareholder of Benetton and Autogrill Group, and its subsidiary called “Sintonia S.p.A.”) to avoid the cost of an external control between the pure production and the middle and final distribution, through the franchising formula (excluding the return of unsold commodities). Nowadays the core of production – like design, R&D – are based in Italy where there is a centralised control of all the phases of the production, while the rest has been outsourced.

We can consider that Benetton developed a dual-supply chain model after 2000 to face the emerging global competition in fashion market. It means that the production is carried in Asia and in Europe, depending on the time to sale the product. It is a system based on the different pull-push factors, which responds to the changes in the market. It implies the fact that nowadays Benetton can launch five different collections for each season and the fact that this system has a more efficient activities’ flow, reducing the costs and the lead-time. Always considering the push-pull demand and supply the firm introduced the technique called the “postponement”: it implies the maximisation the possible benefit from the product sale, reducing the risks of further investment; according to Jarillo (2011) there is no the “dye-first-knit-after” model more, but there is the knit-first-dye-after model emergency.
Another element that differentiates Benetton from others firms in the same sector is its capacity of diversify the marketing, focused on relevant themes (we can easily refer to the Oliviero Toscani’s advertisements against the death penalty or to improve the use of condoms against AIDS), on the idea of colour (United Colors of Benetton), fashion, quality and authenticity at affordable prices with innovative materials. This single and simple message seems to be the manifesto of this firm for all consumers. The empower of marginal groups such as the use of sustainable row materials are also important commitment of the firm: business and ethics (whenever it can be called green or ethic-washing) are very powerful themes on which construct its market campaign in order to reach different publics and challenge the international competitors (among the others it is possible to mention the Spanish “Zara”).

3. Case Discussion

The case of Benetton helps us to understand the features of the dynamics of a strategic business governance for a manufacturing firm. Benetton has done strategic choice that are very relevant for its profitability and its sustainability over the time. First of all the starting investments and the R&D, acquisition of other firms, innovation, development of new market and of new products to improve its performance.

Secondly the “outsourcing” of human resource: people in fact play a crucial role in the production of a firm. They share the knowledge, the organisation, the knowledge dissemination, the commitment of the company and its improvement, but they do not cost on the company. Partners and networking, in the same sense, help the development of the business and the competiveness in the sector. The global dual supply-chain strategy is a successful example of a network which aims to competitiveness.
Technology and Innovation, as seen, are crucial elements of the Business strategy of Benetton: technology, in fact, can be considered as a sustainable competitive advantage, while innovation is the essential vector to promote business development. Both tools always helped Benetton to face the new competitively challenges in the global market. Moreover the innovation of creating value and capturing value are given by the revenue, the cost, the infrastructure support, the profit and the pricing: so innovation is the key to perform service infusion profitability.

This example of “flexible-integration” gives us the opportunity to consider the importance of the ownership assets (namely the technology, the know-how, the brand and the diversification of the products) and the sharing of know-how among all actors of the global dual-supply chain and the importance of balancing the internal rigidity and the external flexibility.

Finally, we apply the model we crafted is named ‘Strategic Business Governance Model’ into Benetton case study, it is shown on Table 7.
<table>
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<tr>
<th>ELEMENTS OF STRATEGIC BUSINESS GOVERNANCE MODEL</th>
<th>BENETTON CASE STUDY</th>
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| **1 - Productivity**                          | • Outsourcing the human resource  
• The global dual supply chain strategy  
• Investment in high-tech design  
• Centralized control of all phases of production |
| **2 - Manufacturing Efficiency**              | • Core of production like design and R&D are based in Italy.  
• Investment in high-tech design |
| **3- Value Creation + Capturing (INNOVATION)** | • Creation of ‘Fabrica’ communication centre in order to combine industry and culture.  
• Diversifying the production for different categories such as men, women, children and expectant mothers (Segmentation). |
| **4 – Sustainability**                        | • The empower of marginal groups such as the use of sustainable raw materials.  
• Ethics(green or ethic washing) |
| **5 – Profitability**                         | • The fact of using contractors.  
• The decentralisation (overall in Hungary, Croatia, Tunisia, Turkey, Vietname, Cambodia and Bangladesh) with gradual shift from Italy to other countries. |
| **6 - Adoption to changes**                   | • Acquiring other important firms in sport and underwear sectors.  
• Investment in high-tech design. |
| **7 - Costs**                                 | • The fact of using contractors limit the dispense on running costs, namely the starting investments in plans, the transportation costs but also labour costs.  
• The dual supply-chain strategy. |
| **8 - Non Value-Added Activities**            | • Fixing the price and the delivery time.  
• Small and medium sized contractors are put in competition each other in order to reducing and enhancing the production according to the market demand. |

*Table 7: Application of Proposed Model into Benetton Case Study*
CHAPTER SIX

1. Conclusion

This study first aimed at helping to practitioners who would like to improve competitiveness and understanding the importance of governance in the company. This study also aimed at helping to researchers because the literature review has well substantiality in terms of using various references from different years.

As per our discussion on our proposed model and the case study of Benetton, we found out that gaining “competitive advantage” is the main goal of Strategic business model governance. In order to gain the competitive advantage, we defined the elements what we have to improve and what we have to reduce in the model we proposed. Therefore, a good Business Model must have these elements but this is not enough to gain a competitive advantage because the role of the Strategic business governance starts on this manner. Strategic Governance leads to implement those elements defined by Business Model into the company and create competitive advantage. Beside of having a Business Model, it does need a governance managed by strategic decisions in order to implement and put these elements into practice in the structure of the company and to keep the company sustainable. In here, ‘change’ must be unmissable element that the strategic decisions has to adopt these changes correlative.

However, whether a company provides a product or service to its customers, the target is to have customer satisfaction. If customers are not satisfied, the company is not able to gain competitive advantage. Therefore, as like in the Business Model Canvas of Osterwalder (2004) or other Business Models, they first asked companies to discover customer needs and wants. Considering a manufacturing company, according to those customer needs and wants, it has to determine its’ technical requirements of the products and also the service provided to customers before, during and after sales periods. And after benchmarking, the company can
realize where and how to compete with its’ competitors. This will help to a manufacturing company to have customer satisfaction and finally competitive advantage, as it is seen in our model crafted and development of our proposed model.

Finally, ‘Change’ was the first subject that we started to think about and write this dissertation. As we mentioned in the Introduction part, there are several types of change but we can summarize them into two categories: Internal, External. Adopting to external changes (technological and innovative changes) requires managers, executives or strategic team to realize each change related to the company’s business area. Due to those changes, business model should be reformed and strategic decisions must be taken in order to implement the new elements into the structure of the company to gain competitive advantage.
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