

PROSPECTS OF DESIGNING FLEXIBLE BUSINESS MODEL IN TURBULENT TIMES

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Abstract: *The present study aims to analyze the current global context to capture the characteristics of the new type of volatile and turbulent business environment in which companies must operate nowadays and to bring some propositions in order to guide managers in designing or redesigning business models to achieve flexibility. The central message of this paper, that is a point of view one, is that, nowadays but also in the future, business models that are based on strategic, organizational and operational flexibility and on reaction speed will be those who will provide the greatest capacity to respond to change. Even if the international theory provides a multiple perspective analysis of business model concept, still how it can be achieved such flexibility remains an open issue in the academic debate, but also in the practice of companies. Thus, the paper contains some propositions in order to guide managers in the process of designing or redesigning the business model.*

Key words: *business model, strategic flexibility, turbulent times, operate, propositions*

JEL Classification Codes: D72, M21

1. INTRODUCTION

Since 2007, global economy has entered a period of profound restructuring, the world facing one of the worst economic crisis in its history. It's amazing how fast the financial crisis that started in the U.S. turned into an economic global one. The rapid expansion of the economic crisis worldwide confirms the acceleration of the globalization process and the interdependencies existing at present between national economies. The current economic crisis is considered as an unprecedented event for the world, its unique character being supported by several aspects, including its severity and global nature. Looking at the present global economic turmoil, the transformation mechanism of the financial crisis in an economic one, spread worldwide, is based on the fact that a certain type of crisis generated the emergence of another type of crisis, the key driver to this emergence being the emotion. The core mechanism of this phenomenon is considered the “economy of fear”. Due to the exposure to the uncertainty and economic shocks, the emotional response of consumers to the effects of the financial crisis determined the decrease of their confidence in brands, companies, sectors of activity, and in the anti-crisis measures taken by governments. In other words, the negative emotional response determined the appearance of confidence crisis which is associated to the alteration of consumption and spending allocation, people considering savings as a proper reaction to the uncertainty of their existence. Fear of the future,

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unfavorable changes in price elasticity, hard value and cost benefits gain in importance, compressed time preference, financing becomes more important and safety a higher priority. Consumers choose saving their money instead of spending it (Simon, 2009). The fall in consumer spending leads to a decrease in aggregate demand and therefore into a lower economic growth. This had as consequence markets contractions and their structure alterations, generating the classical overproduction crisis, but also the prolongue of the economic crisis. Thus, the new market situation is characterized as the “age of thrift” which has radically changed customer purchase behaviour, and provides an environment dominated by public skepticism and lack of trust in business and in marketing offers (Piercy et al, 2010). Thus, nowadays companies must adapt to an environment characterized by volatility, discontinuities and change. Change has become so rapid that companies have lost the market visibility in a large extent. To operate in such a dynamic environment, companies must be flexible in terms of strategic, organizational and operational point of view. Therefore, by redesigning business models, their flexibility represents currently a major concern of managers. Looking to the future, obviously, new business models must be designed on principles that ensure a high level of flexibility and high speed of response, which are essential conditions to quickly respond to changes. The responsiveness to change and speed of response will be provided by business model orientation from outside to inside.

In this global tumultuous context, companies should learn the lesson of survival and to find their own way in the crisis. The question that generated this study is: in terms of volatility, turbulence and change, how companies can build their survival and which are the key factors of business model that can provide the necessary dynamism to operating in turbulent conditions?

Turbulent times and uncertainty

Since 2008, the global economy has entered a period of profound restructuring, the world facing one of the worst economic crisis in its history. It's amazing how fast it extended the financial crisis that started in the U.S. and has turned into a global economic crisis. The transformation of the financial crisis in a severe economic crisis and its rapid expansion worldwide confirms the acceleration of globalization process and the interdependencies existing at present between national economies. As Seymon Brown said, the phenomenon of global interdependence affects not only the relations between states, but also the relations between the activity sectors through rapid spread of economic and social effects. Since 1978, Modelski advocated for global management of problems and relations and for management of global interdependencies. The same thing is highlighted by Puscas (2010), which relates the contemporary globalization as “networks of interdependence” and by Reuveny (2008) that defines contemporary globalization as a process of increasing the connection and interdependence in all important areas of human activity, globally.

An interesting aspect of the current economic crisis is that a certain type of crisis generated another type of crisis. In the conference “Crisis of Confidence, The Recession and Economy of Fear” organized by University of Pennsylvania’s Department of Psychiatry and the Psychanalytic Center, in 2009, it was concluded: “The emotion not only led America into the present economic crisis, but it could also keep it there”. Thus, the negative emotional response of consumers at the global level, due to the exposure of the uncertainty generated by the financial crisis, led to lower levels of trust in brands, companies, sectors of activity, in the anti-crisis measures taken by governments, in the political class that led to the crisis of confidence. This is supported by the evolution of Consumer Confidence Index (CCI) which,

according to Nielsen Global Confidence Index Report 2008, CCI has experienced significant decreases in all national markets in which it was measured, in some national markets reaching an absolute record of decrease. In the first half of 2009, CCI continued to decline in 48 of the 50 monitored countries. In this context, consumers have adopted various crisis management strategies, which were mainly based on reactive actions to reduce consumption in order to survive, but also to save in response to uncertainty etc. Thus, the financial crisis doubled by the crisis of confidence led to lower consumption, leading to contracting markets, namely the appearance of classic overproduction crisis. At the same time, unemployment, inflation, reduction or freezing incomes, low purchasing power, subtracting savings / investments had both important social and economic consequences on people: impaired quality of life, of health status of the population and the financial family situation, social relations damage and “capital loss” as a result of exposure to unemployment and the decrease of incomes.

Regarding the outlook for 2013 and 2014, the forecasts remain reserved. According to World Economic Situation and Prospects 2012, Global economic outlook, United Nations, New York (<http://www.un.org>), the global economy is on the brink of another recession. Although in this report are expected slight increases in the year 2012, it is stated that these increases are not sufficient to deal with the crisis of jobs in developed economies and will lead to lower incomes in emerging economies. According to Global Economic Prospects (www.worldbank.org), the evolutions in the first four months of 2012 have been generally positive. However, the World Bank warns that countries must be prepared to respond to a further decrease that could occur. Also, according to the World Economic Outlook (WEO), coping with High Debt and Sluggish Growth (2012) made by the International Monetary Fund (www.imf.org), it is not clear if the global economy is hit by another wave of turbulence due to a slow rebuilding of the economic crisis, or if the turbulence is a long-term component. Considering all these developments and global unease, it is clear that at present, we live in a transitional period characterized by uncertainty to a new era defined by drastic changes which can not be seen with greater clarity now. As Kitching (2009) highlights, current economic crisis can be considered as a “structural brake” in the global economy and the result of this could be a new economic order. The change has become so rapid that the need for a different way of doing business will mark the whole global business environment. This environment will be characterized by new innovations and by a consumer whose preferences will evolve in a rapid rhythm (Kotelnikov, 2009).

2. STUDY OBJECTIVES AND METHODS

This study is a descriptive one and is based on extensive analysis of international academic literature on the economic crisis and the various available reports which present viewpoints on developments in the current economic crisis and the strategies adopted by companies to face a turbulent business environment. A detailed analysis of the business models literature was conducted in order to determine its conceptual nature. Last but not least, this study is based on results of own empirical research conducted in 2010, which aimed to identify the consumer behaviour in the context of uncertainty caused by the economic crisis and companies response in turmoil periods.

These reviews took into account the following objectives: (1) shaping a global context of economic crisis and identify its peculiarities, (2) identify economic and social consequences of the economic crisis, (3) determining the characteristics of turbulent environment associated with the economic crisis in which firms must operate, (4) establishing the conceptual nature of the business model, namely of the flexible business model, (5) the

proposal of some principles that lead to increased flexibility in the business model, aspects considered key for successfully surviving and recovering from the economic crisis.

Starting from the premise that strategic, organizational and operational flexibility, the speed of response and direction from outside to inside are the key factors that ensure the growth of capacity of an organization to operate in an environment marked by volatility and disruption, we proposed a number of issues that managers should consider in order to design / redesign flexible business models. Thereby, the first part of the paper presents a detailed analysis focusing on the economic crisis with emphasis on its effects and on a number of issues concerning the characteristics of the business environment in which firms operate and will operate in the future. The second part of the paper contains a detailed analysis of the specialized literature on the conceptual nature of the business model, and the third section contains proposals on principles which should underlie the design / redesign a flexible business model.

3. WHAT IS A BUSINESS MODEL? THE CONCEPTUAL AND EMPIRICAL BACKGROUND

The concept of business model has become very widely used both in the academic environment and in companies practice, although its use is not always clear. Regarded generally as a logical approach by which the organization thinks, designs its business, to be competitive on the market in the way that produces and distributes value, the business model is a very actual concept, a fashionable one, concept that was and is discussed and analyzed from multiple perspectives: management, marketing, information systems, e-business.

The first use of the term can be found in the work of Bellman, Clark & al (1957), respectively of Jones (1960). However, the concept of business model is becoming increasingly important in academic debates and firms practice in the late 1990's (Osterwalder et al, 2005). In a relatively short period of time, different researchers contributed to the definition and expansion of conceptual nature of the business model. For example, there were authors who defined business model as an approach that the organization covers to maintain itself on the market (Timmers 1998, Magretta 2002); others have identified elements that make up a business model (Chesbrough and Rosenbloom 2000, Hamel 2000, Amit & Zott 2001, 2008, 2010), as others have adopted a rigorous approach modelling (Gordijn 2002, Osterwalder 2004, 2005, 2010).

The model can be defined as a simplified representation of a reality, entity or process and the business is defined by the DEX (Explanatory Dictionary of Romanian language) as an activity carried out in an area whose purpose is to make profits and involves, in our vision, strategic, organizational, commercial and financial issues which interrelate in a system that aims to be as flexible in turbulent external environment conditions. A business model is a description of the value that 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" (Osterwalder and Pigneur, 2002). It is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm (Osterwalder, Pigneur and Tucci, 2005). A business model is „a structural template of how a focal firm transacts with customers, partners, and vendors; that is, how it chooses to connect with factor and product markets" (Zott and Amit, 2008). A business model describes the design or architecture of the value creation, delivery and capture mechanisms employed. The essence of a business model is that it crystallizes customer needs and ability to pay, defines

the manner by which the business enterprise responds to and delivers value to customers, entices customers to pay for value, and converts those payments to profit through the proper design and operation of the various elements of the value chain” (Treece, 2010).

At the same time with the definition of the concept, researchers have focused on drawing distinctions between this and other concepts considered complementary, establishing different types of relationships between these.

Thus, international literature highlights the complementarity concept with relevant aspects of the organization, namely:

- some authors (Gordijn, Akkermans & al. 2000) have shown the distinction between the business model and the model of business processes in the sense that the concept of business model should be understood as a logical process of creating and delivering value and business process model illustrates the way in which the business operates with the help of operating processes;

- other authors have shown the difference between strategy and business model. Magretta (2002) alternatively use the term strategy and that of business model indicating that the model is regarded as a system in which components interrelate to create value, while the strategy involves the implementation of the model. Osterwalder et al (2005, p.13-14) states that the strategy involves execution, implementation, while the business model shows how a business operates as a system (business concept). According to him, it is translated into the strategy’s content that sets specific goals, processes, activities, cash flows;

- other authors (Bernus 2001, Wortmann, Hegge & al. 2001) commented the relationship between enterprise models and business model. Thus, enterprise modeling covers all the operations taking place within the organization, meaning the processes and activities and business models are focused on creating value for customers and for the organization;

- Norman (1977, 2001) uses the concept business idea which describes as consisting of three different components: valuing the needs identified in the external environment, the offer, internal factors represented by the organizational structure, resources, knowledge, capabilities, value systems. The concept is considered to be systemic in nature as the organization’s relationship with the external environment influences the offer which in turn depends on the nature of internal factors.

- the concept of bussines model is often associated with e-business research considered as an empirical or conceptual model, has certain components and certain structures (Timmers, 1998, Cherian, 2001, Applegate, 2001,). Hedman & Kalling (2003, p.50) believe that a business model should be understood as a system-related factors and a set of activities that lead to improved value chain by an offer that provides increased quality perceived by the customer and/or reduced costs.

- Afuah & Tucci (2003), Osterwalder & Pigneur (2004) take the view that a business model should be understood more as a holistic concept that includes a range of factors such as pricing mechanisms, relationships with customers, partners and income distribution.

Afuah & Tucci (2000) suggest that “A business model can be conceptualized as a system that is made up of components, linkages between the components, and dynamics”. The components of the business model are customer value, customer segments, scope of products and services, pricing, revenue sources, connected activities, implementation, capabilities, and sustainability.

McGrath & MacMillan (2000) include “the way an organisation organises its inputs, converts these into valuable outputs, and gets customers to pay for them in the business model concept”. Chesbrough & Rosenbloom (2002, p.533-534) present a business model as a

construct that mediates between technological inputs and economic outputs. The functions of a business model are: (1) to offer value proposition; (2) to identify market segments and the mechanism by which it can generate income; (3) to define the structure of the value chain; (4) to estimate the cost structure and profit potential; (5) to describe the organization's position within the network including suppliers, customers, partners, competitors and (6) to formulate competitive strategy.

As it can be seen, in literature, there are many viewpoints on what the business model is and what are its components. Researchers have tried to establish a conceptual nature of the business model and the relationships between it and other concepts.

In this study we approached the business model in holistic view, taking into account a number of components that compose it: strategy - organizational architecture - operations.

4. HOW TO DESIGN A FLEXIBLE BUSINESS MODEL IN TURBULENT TIMES

Based on what Darwin said: "Not the strongest species survive, nor the most intelligent, but the most adaptable." (acest citat trebuie sters), the species that survived over time are neither the strongest nor the most intelligent, are those that have had the greatest capacity to adapt to change", we consider that companies will operate successfully in a volatile business environment are those who have the greatest capacity to adapt to change, meaning that they have the ability to respond quickly and effectively in a new environment. To achieve a high level of flexibility, companies must define / redefine the business models to be oriented from the outside to the inside. What we suggest is that, currently, neglecting the market may not only jeopardize the recovery from the crisis, but the very survival. (acest paragraf ar trebui regandit ca apoi sa-l traduc)

In a turbulent business environment, two issues may inhibit the process of redesigning current business model to become flexible, namely:

a) Focusing on reducing costs drastically.

According to the results of several studies conducted in the context of the economic crisis, the restructuring was a strategy adopted by many managers in the first phase of the economic crisis (contraction phase). Restructuring generally took various forms: downsizing, restructuring, budget reduction and suspension of projects, the most common being the reduction of activities, reducing staff, reducing costs related to research and development, marketing and staff training. Reducing the different types of expenditure was dramatic, especially in the cases of the forms which are under the immediate survival stress. In this case there were, for example, the firms that are in financial imbalance with high leverage, faced with the inability to pay the important clients, being in a position to become victims of domino effect or without liquidity.

However, the drastic reduction of costs must be made based on a clear analysis of the effects generated by each cutting. For example, although the reduction in personnel costs was a necessity, it can not be neglected that the company's distinctive competencies are built using skills and knowledge of employees. Burke & Cooper (2000) point out that although downsizing may be necessary, as well as other reductions, these measures should be accompanied by actions that lead to increased efficiency.

As we reported in an article published in 2010, cost reduction must be made taking into account a number of issues such as: (1) to represent the result of a detailed analysis of the effects that they will have on short and long term; (2) the analysis of the effects of cuts to be made by

a interoperable team for there to be multiple vision of these consequences; (3) primarily to eliminate waste, inefficiency and redundancy; (4) do not affect the basic skills of the business model, thus ensuring the resilience of the crisis; (5) to be accompanied by other measures which take into account the return of the crisis.

b) Inertia.

Ashkenas (2012) points out that no business model, no matter how innovative it would be at some point, can not be successful forever, the most dangerous being the organizational inertia, meaning to get stuck in a pattern which is not successful, and although all people notice this, you still do not want to see it. . Markets, technologies, customers, competition are changing with such speed that no one can guarantee that the profit gained today may ensure success tomorrow. Also, Brad Power (2012) highlights the importance that managers need to pay to customers and to stay with “their finger on the pulse” to identify new opportunities for change in business model. Adapting to economic shocks is a skill that managers must also develop so companies may survive. Although the economic crisis, poor results should represent alarm signals to trigger the change in business model in due time, resource availability, routine management mind-set lead to keeping a firm into an inertial response model that inhibits the company's ability to identify and capitalize on opportunities that may come with risks in a volatile environment. . Contracting markets, the structure changes that occur, changing the way consumers think and behave, can represent both risks and opportunities. Inertia will not allow timely identifying and taking advantage of opportunities. As Ashkenas (2012) sustains “Kill your business model before it kills you”. Testing, incubating, and investing in alternative models reduces that possibility.

Both drastic reduction and inertia basically represent management’s focus on the interior of the business and the possible impairment of basic skills, which will reduce the ability of firms to capitalize on opportunities. Given the uncertainty that characterizes business, *the aspects that enhance the development of flexible business models* are as follows:

Proposition 1: Orientation from outside to inside of the business model

Whether a company is under pressure or not from immediate survival, the alteration of external environment represents the strategy, organizational structures and existing processes that shape the business model. Remodeling is needed for the organization to meet the challenges. Redesigning represents a change project – planning strategic scenarios, a flattened organizational structure, reorganizing operations and network development. To determine the intensity and direction of change in the redesign process the company will monitor three important aspects of the external environment: (1) collecting and analyzing the information on the economic situation at national and international level and analyzing the dynamics of key economic indicators whose evolution highlights the trend of economic crisis. This monitoring enables the company to closely monitoring the pulse of the economic crisis and capture in real time the signals of the deepening economic crisis or those of recovery; (2) collecting and analyzing the information about how the industry in which the company operates is restructured and develops, and on the impact of new government regulations; (3) CCI monitoring, understanding how consumer behavior changes, knowing their needs and expectations in the new context (it is about to understand and learn how to provide value for money), identifying the strategies adopted by major competitors for the crisis management, market analysis by collecting information about how legal rules affect consumers.

Proposition 2: More than one strategy.

As Kitching underscores (2009), the literature highlights that in conditions of recession, business performance is variable, no specific strategy can not guarantee survival or success. Thus, strategic, organizational and operational flexibility represents an issue that can make the difference between companies that adapt and those that disappear (Kotler, 2003). In a study conducted by Pandelica & Pandelica (2011) aiming to determine the extent to which psychological factors influence consumer behavior, it has been shown that the more the uncertainty is higher, measured as perception and aversion to risk, the consumer behavior is altered. Given this aspect, planning several strategic scenarios applicable in different contexts projected of the external environment, leads to increased responsiveness of the company, in a volatile environment, by increasing the flexibility of the business model, focused on the market signals. These scenarios will be based on different contexts of external environment evolution, considering at least two options - pessimistic and optimistic. Strategic scenarios set future directions for action, enabling the company to operate regardless of the environmental evolution. The two scenarios are related to the economic crisis curve. Thus, the pessimistic scenario occurs if the national economy is becoming more severely affected, the signals being: the decrease in GDP, rising unemployment, decreased income, increased sense of panic, contracting markets, important mutations in the market structure by consumers' migration on the demand curve, significant changes in consumer behavior, intensifying competition. Optimistic scenario corresponds to preparing a healthy recovery from the economic crisis, when in the company occur signs of recovery, for example, the decreasing sense of panic among consumers and CCI growth, increasing consumer's desire, positive development of key economic indicators. As Quelch & Jock (2009) stress, after the crisis there are enough consumers willing to try new products.

Planning the two strategic scenarios involves, primarily a multiplication of the planning effort, given that the planners will consider not only a strategy but developing two strategies. Besides the courses of action taken for each possible evolution of the external environment, the planners will consider the establishment of the necessary resources, taking into account every possibility.

Proposition 3: The emphasis on speed of response.

As Kotter stresses (2012), what should make companies today is to identify the main risks and opportunities early enough, to develop strategic alternatives of creative actions to implement them quickly enough. Only a business model oriented from outside to inside will allow such a reaction speed. The company will continuously monitor the external environment, capturing the signals, following the evolution of national and international economic situation, changes in consumer behavior and actions of competitors, legal regulations. The speed of response is very important, and the company can not achieve this speed of reaction, being based on a traditional hierarchical organization. Thus, an essential condition for a company to become flexible in terms of strategy is it to go beyond hierarchical organizing and become flexible in terms of organizational and operational. Shifting from hierarchical structures to flattened structures, it reduces the time of decision and implementing the decisions, increasing the response speed. At the same time the shift from organizing around functional departments to organizing around interoperable teams oriented on tasks in the project will contribute to flexibilization in organizational structure and within the operations.

Proposition 4: Emphasis on networks.

As Guran stressed (2008), in current conditions where risks have multiplied significantly, an important aspect is the development of business models to capitalize the ability of innovating existing at the level of value chain system. This involves passing from an organizational perspective on strategic business units to strategic business networks by integrating partners, suppliers, customers and competitors, to strategic business systems that take the form of multiple interconnected networks based on dual communication. The value chain system management is a great challenge in the context of an environment marked by volatility and discontinuities. Outsourcing the production process for non-core components and of the research and development process make the transition from business units to multiple interconnected networks the value chain becoming longer and more complex.

Creating, communicating and delivering value to customers depends on the extent to which the firm manages to attract different types of stakeholders, to integrate them in the network by signing strategic partnerships up and down of the value chain system and by moving towards collaborative strategy such as win / win.

5. CONCLUSIONS

The current economic crisis represents an unprecedented situation for all humanity, given that by its global character and by severity, it is significantly differentiated from the other episodes of overcome crisis. As a result of accelerated globalization and increasing interdependence between states, businesses and sectors of activity, the effects of financial crisis have spread rapidly, all national markets being affected in a certain extent. Looking forward, the forecast shows that not only the present but also the future will be marked by accelerated changes, volatility - growth and contraction will rotate at high speed. In such a tumultuous context, companies are forced to learn the lesson of survival, to be creative and innovative to adapt to change. The question that generated this study was how the companies survive and operate successfully in times of turbulence.

The central message of this paper is that both now and in the future, in order to operate in such a turbulent environment, shaped by the analysis done, the companies will have to become flexible by designing / redesigning some business models that are based on strategic, organizational and operational flexibility, the orientation from outside to inside and reaction speed. This paper proposes a number of issues that managers should take into consideration in the design / redesign business models, which from our point of view, once adopted, will lead to the success of this approach. Therefore, this study is a descriptive one, and even if its relevance must be demonstrated by empirical support, we consider it to bring valuable perspectives that could guide managers in the changing process to respond in the context of turbulent environment.

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