

**AN ASSESSMENT OF THE VIABILITY OF BUSINESS MODEL
IN THE CONTEMPORARY BUSINESS ENVIRONMENT
A CASE OF LOCAL AUTHORITIES IN ZIMBABWE**

Ndlovu, N 

Department of Business Management, Lupane State University Bulawayo, Zimbabwe
ndlovunj4@gmail.com

Mafumbate, J

Department of Business Management, Midlands State University Gweru, Zimbabwe

Shumba, V

Department of Business Management, Lupane State University Bulawayo, Zimbabwe

Zachariah, J

District Administrator, Lupane District, Zimbabwe

Abstract

The aim of this research was to come up with strategies that could identify the different business model engaged by the local authorities, determine business models at the nerve of local authority failure in the Income generating projects, identify obstacles faced by councils for them to change their model, propose business modelling in councils as well as mapping the strategic needs for business modelling. With a tense competitive environment to which the organisations is exposed to, thus apart from the ever changing consumer taste and demands in the macroeconomic environment the researchers found out that the income generating projects were not performing well in the market compared to other private operators. Despite the fact that the income generating projects have been subjected to fierce competition after de-regularisation in some sectors allowing new independent players to operate, still there was a gap that needed to be filled as their performance is in doldrums. The literature has also been used to draw recommendations and conclusions. Questionnaires were the main source to

extract information in the field of survey. Local authorities, custodians of local governments and interested parties were engaged from the southern region of the country, Zimbabwe. Careful analysis of the data gathered was done by using both qualitative and quantitative data analysis methods. Some of the recommendations include practising total quality management, customer and public relations apart from having business modelling as a practice in the management of income generating projects.

Key words: business model, contemporary business, income generating projects, environment

INTRODUCTION

Local authorities have been mandated to deliver a service to the communities within their jurisdiction. One of the main activities was the provisions of social entertainment and locally demanded products and services. Councils engaged in the following activities without liberal competition from private players; Brick moulding, breweries, beer halls and bars, timber logging and fishing concession, hunting of wild life and selling of natural resources such as sand.

Councils operated these projects without facing competition from other independent players. This led to them having monopoly over the activities. With the inception of economic changes in the macro environment led to new players seeing the opportunity as a result of failure by the council to service the market. Economic Structural Adjustment Program of 1992 ushered the need for liberal market conditions. This created inroads for new player into the government dominated and quasi government structures. Councils having monopoly over projects had to compete with other new players in offering the same products.

In beer brewing saw Delta Breweries opening a brewing plant; in fish concession saw other players also coming. In brick moulding, companies such as Wildale Bricks, McDonald Bricks and Clay Products emerging. The Municipality Monopoly Act which gave councils solo power to produce products and render services was repealed as a result of the dictates of the new macro-economic variables and policies. This warranted the need for the councils both urban and rural councils to shift their modus operand given the new operational environment charged with competition.

The success of every business relies mostly on the business model that an organisation will be engaged. Local authorities engage in different businesses portfolios or enterprises which include; Operating beer halls, farms, brick moulding, timber logging, and the brewing of beer. This is done in an effort to supplement council revenue and creating value for its clients apart from the rates and levies that they are mandated to charge in line with the local authorities acts (Rural District Councils Act and the Urban Councils Act.

Most portfolios, “income generating projects” as they are called have failed to deliver and operate profitably. The Rural District Councils (RDC) Act Chapter 29:13 of 1996 give local authorities powers to operate viable entities. Section 80 (1) states: Income-generating projects: ‘a council may engage in any commercial, industrial, agricultural or other activity for the purpose of raising revenue for the council. The Urban Councils Act Chapter 29; 15 buttresses and it states, ‘a council may engage in any commercial, industrial, agricultural or other activity for the purpose of raising revenue for the council’. This provides the local authorities with the mandate and powers to compete in the business sectors. Section 222 of the Urban Councils Act (Sub section 1) states that; a council may— (1 a) establish and foster co-operative companies and co-operative societies to carry on any commercial, industrial, agricultural or other activity; and society. Despite these parliamentary legal statutes provisions their business models have proved dysfunctional despite being endowed by resources and opportunities. This is against what Schumpeter (1934) termed ‘creative destruction’, describing the process that consists of both destructive as well as creative activities leading to economic development. Local authorities have failed to renew their business models to create business viability. By introducing innovations in the form of new products, production processes and markets, entrepreneurial activities may lead to the creation of new industries/ firms (Wiklund, 1998).

This paper endeavours at highlighting how compatible are local authorities’ business models with the contemporary macro-economic environment in Zimbabwe. Local political, social and macro-economic demands to business have transformed since the unveiling of the structural adjustment programme in the 90s. The economic failure in country ushered a new dispensation for businesses to streamline their activities and functions in line with the new demands. In 2009, the government of Zimbabwe adopted the use of the multicurrency and this marked the demise of most council income generating projects.

The clients demand value for their hard earned income. This is resembled by the following extracts. In Harare Rufaro Marketing a subsidiary of Harare Municipality closed virtually all of its outlets. Kusile Rural District Council (KRDC) in Lupane closed three of its beer halls in face of high overhead costs. Timber concession in Nkayi closed due to products failing to capture the market needs and demands as a result of poor quality timber. In Victoria Falls the Municipality in the first quarter of the year 2012 had posted US\$22 000.00 loss from its three beer outlets. The Municipality was established in 1969 but to date it does not have any lodge, motel or hotel when it is situated in a hospitality area. Victoria Falls Truck Inn has posted negative figures in its 2010-2012 financial years. Tsholotsho Rural District Council has leased all retail outlets that it had established 2008. This is after citing low sales compared to other councils.

The Bulawayo City Council is slowly selling its buildings to private owners and some to management citing poor lease management and poor maintenance schedules. Poor cattle ranching in Matabeleland South municipalities catapulted by poor climatic conditions have led to most local councils abandoning cattle rearing. This is due to poor recapitalisation exercise and this has impacted negatively on the attitude of ratepayers. This has led to accruing debt from the rate payers. The state of infrastructure in most local authorities has become a concern to the patrons and the public. Dilapidated furniture, machinery and equipment are a symptom of poor business model in an endeavour to create value for the customers. Most customers have shunned being served by the local authorities and this has affected their operations. Bulilima Rural District Council has resorted to engaging Debt Collectors to recover what it is owed. Binga RDC has closed the once prominent Crocodile Farm and the Kapenta Fishing projects while its competitors are viable and operational. With the advent of the multi-currency regime it takes a great effort to convince rate payers to pay for a service that is not convincing.

Statement of the problem

Council business enterprises have failed to generate revenue profitably for the council. The once glorious and blossoming organisations have become appalling to business engagement, and it is due to political and management dichotomy that they are still operating though unsatisfactory. The customer levels are dwindling visibly shown by the empty big beer halls; idle machinery at different ramps; dilapidated fishing boats and high staff turnover. The monopolistic and casual business model worshiped by local authorities seems to be static and militating against business principles and ethics leading to failure as anticipated by the market. It is characterised by monopoly where their services and products were demanded despite quality demands. The monopolistic business model that the local authorities have been worshipping has since died a natural death. Local authorities have been weighed down by operational challenges ever since the promulgation of the Competition Act of 1996 that repealed the Local Authorities Monopolies Act. This had the effect of removing the protection enjoyed over the years. Thus at the mark of the millennium, the business environment and culture has evolved at an imaginable pace stimulated by catastrophes such as global recession, fuel and energy crisis. In the Zimbabwean context, the market liberalisation and dollarization of the markets naturally demanded new corporate management models. Local authorities have failed to stand up to the challenges and adjust accordingly. The modern market principles demand agile, innovative, cost effective, entrepreneurial, risk taking and ethical entities. Versatile business model is critical in the ever changing business environment.

Research Objectives

- To identify the different business model engaged by the local authorities
- To determine if business models are at the nerve of local authorities failure.
- To identify obstacles faced by local authorities in business model change.
- To map the strategic needs in business modelling for local authorities.

LITERATURE REVIEW

Weill and Vitale (2001) define business models "A description of the roles and relationships among a firm's consumers, customers, allies, and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants." This entails that a business must clearly have a defined liaison with its stakeholders so that it benefits their loyalty and thus creating a unique profitable business.

Grant, R.M. (1995) sums it all by stating that, 'the essence of a business model is that it defines the manner by which the business enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit. Thus it reflects management's hypothesis about what customers want, how they want it, and how an enterprise can organize to best meet those needs and make a profit.

Key to these definitions is that business model centres on delivering value to customers ensuring profitability to the entity. Thus a model is distinct in nature to ensure competitiveness in the market.

The Distinction between Business Models and Business Process Models

Business models and business process models should clearly be distinguished (Gordijn, Akkermans et al. 2000). A review of the business model literature shows that the business model concept is generally understood as a view of the firm's logic for creating and commercializing value, while the business process model is more about how a business case is implemented in processes. Part of the confusion comes from the expression "business modelling" being used mainly for the activity of business process modelling, which is the activity of modelling processes (Aguilar-Savén 2004) and not business models.

Strategy and Business Models

Authors agree that there is a difference despite being linked. As to the debate about the difference between strategy and business models the picture is much less clear and the authors debating the subject differ widely in their opinion. Some people use the terms "strategy" and "business model" interchangeably (Magretta 2002). Often they use it to refer to everything they

believe gives them a competitive advantage (Stähler 2002). Yet, a review of the literature shows that the view that business models and strategy are linked but distinct is more common (Magretta2002; Mansfield and Fourie 2004). A practical distinction describes business models as a system that shows how the pieces of a business fit together, while strategy also includes competition (Magretta 2002). However, in general, business model literature seems to fit the former definition better, because most of it focuses on describing the elements and relationships that outline how a company creates and markets value.

Business Model Elements

Thus according to Osterwalder (2004), management are faced with different choices; such as the concrete choices made by management on how the organization must operate, and the consequences of the choices. In local authorities it is CEOs and directors of Finance and Project managers who must organise and determine the consequences of such choices. Osterwalder (2004) clearly distinguished three types of choices:

Policies

Policies refer to courses of action that the firm adopts for all aspects of its operation. Examples of policies include opposing the emergence of unions, locating plants in rural areas, encouraging employees to fly tourist class, providing high-powered monetary incentives, or flying to secondary airports as a way to cut expenses.

Assets

Assets refer to tangible resources such as manufacturing facilities, a satellite system for communicating between offices, or the use of a particular aircraft model by an airline.

Governance structures.

Governance of assets and policies refers to the structure of contractual arrangements that confer decision rights for policies or assets. For example, a given business model may contain as a choice the use of certain assets such as a fleet of trucks. The firm can own the fleet or lease it from a third party. Transaction cost economics suggests that seemingly innocuous differences in the governance of assets and policies may have dramatic effects on their effectiveness.

Types of Business Models

Different authors have propounded different types of business models in an effort to distinguish business operations. Shafer et al (2002) proposed that there are four basic business models; A **Creator** buys raw materials or components from suppliers and then transforms or assembles them to create a product sold to buyers. This is the predominant business model in all

manufacturing industries. A key distinction between Creators and Distributors (the next model) is that Creators design the products they sell. We classify a company as a Creator, even if it outsources all the physical manufacturing of its product, as long as it does substantial design of the product.

A **Distributor** buys a product and resells essentially the same product to someone else. The Distributor may provide additional value by, for example, transporting or repackaging the product, or by providing customer service. This business model is ubiquitous in wholesale and retail trade.

A **Landlord** sells the right to use, but not own, an asset for a specified period of time. Using the word “landlord” in a more general sense than its ordinary English meaning, we define this basic business model to include not only physical landlords who provide temporary use of physical assets (like houses, airline seats and hotel rooms), but also lenders who provide temporary use of financial assets (like money), and contractors and consultants who provide services produced by temporary use of human assets. This business model highlights a deep similarity among superficially different kinds of business: All these businesses—in very different industries—sell the right to make temporary use of their assets.

A **Broker** facilitates sales by matching potential buyers and sellers. Unlike a Distributor, a Broker does not take ownership of the product being sold. Instead, the Broker receives a fee (or commission) from the buyer, the seller, or both. This business model is common in real estate brokerage, stock brokerage, and insurance brokerage.

However Business models describe core aspects of a business such as mission and purpose, organizational structure and business strategies. A business model outlines how business will operate. Specifically, what products or services it will sell, to whom it will sell them and how it will sell them. Figuring out the business model should be done before a business plan and is used to lay the groundwork for a business plan.

Why Business Models in income generating Projects in local authorities

An organization's performance is related to its attaining the appropriate structure and capabilities to execute its strategic decisions. This process involves continuous adaptation and change in relation to a company's strategy and business model. We hypothesize that a good knowledge of a company's business model and its particulars can help to better define the Internal Systems role and structure (Hirschheim and Sabherwal 2001). From this perspective understanding company's business model facilitates its choices regarding internal systems role and structure.

RESEARCH METHODOLOGY

The researchers used descriptive research design to identify some of the business models employed by local authorities in their income generating projects. The researchers targeted local authorities in Matabeleland North, Bulawayo and Matabeleland South provinces both rural and urban. The researchers also focused on other related institutions such as MoLGRUD (Directors, Provincial Administrators and District Administrators), Urban Councils Association (UCAZ), and Association of the Rural District Councils of Zimbabwe (ARDCZ).

The researchers also applied judgemental sampling. This is a purposive sampling in which researchers arbitrarily selected sample units to conform to some criterion.

Local authorities were selected from regions that are near in proximity to the researchers and also as a result of the 2011 local authority performance ranking by the MoLGRUD. The southern region had the most underperforming income generating projects. These are chosen in to the convenience of the researcher's residence and work placement.

ANALYSIS

The 70% to 91% of the respondents agreed that council's IGP is the community based business model. The assumption being that, councils are community organisations and are there to serve the community. The other models did not have a taker.

Areas that must be addressed in the model practiced within local authorities

The respondents noted that; product quality and innovation; customer interface; infrastructure and equipment and financial aspects were the major areas that must be addressed in the model that councils are practicing. However none of them contributed any area that needed attention. Secondly a high issue that was stated to be addressed is the balance between politics and administration. On the low side is the management and administration.

Factors that bring about an impediment to constant change in business models

Cumulatively, poor marketing strategies are viewed as the worst obstacles. Bureaucratic decision making due to the committee system is also seen as a setback. The issue of none renewal of skills in the IGP is seen to be amongst the hindrances. Poor or none market survey results in the organisation adhering to the old consumers taste and needs.

Table 1: What councils must do to ensure that business models are constantly changed?

| Activities | CEO | TS | Treasurer | Total |
|-------------------------------|-----|----|-----------|-------|
| industry analysis | 11 | 4 | 12 | 27 |
| product/service demand survey | 11 | 3 | 14 | 28 |
| customer interface | 7 | 2 | 12 | 21 |
| change management | 8 | 1 | 13 | 22 |
| any other | 0 | 0 | 0 | 0 |

The research revealed that industry analysis; product demand survey, customer interface and change management have been identified as ideal for the projects to change their models. To note is the survey and industry analysis.

Major elements to ensure councils are capacitated to change their business model

Most managers agreed that there were little or no legal needs to capacitate the projects. Key to note is the factors of production finance and technology and well as human capital. Legally the two acts; Urban Councils Act and the Rural District Councils Act capacitate the councils to operate income generating projects.

Table 2: Key elements to be in place to ensure continuous business modelling

| ELEMENT | CEO | TS | Treasurers |
|-----------------------------------|-----|----|------------|
| quality management | 8 | 3 | 13 |
| customer relations | 9 | 3 | 10 |
| appropriate skills mix | 10 | 4 | 11 |
| adequate finance mix | 9 | 2 | 14 |
| infrastructure | 11 | 4 | 14 |
| swift decision making process | 10 | 4 | 13 |
| creating strategic business units | 11 | 3 | 13 |

Above 50% of the respondent agreed on the need to have specific ideal conditions to ensure continued business modelling. Key to note is infrastructure, swift decision making, appropriate skills and creating strategic business units which scores high. Basically all factors scored high a pictorial situation that needs attention.

What councils should do to continuously create new business models?

All PAs (100%) agreed that council should ensure industrial analysis, marketing and public relations, create independent strategic business units and engage into partnerships and synergy. In the same context 84%-92% of the DA's concurred with the PA's. While only 10% proposed that continuous strategic planning must be done to ensure constant business modelling.

RECOMMENDATIONS

Income generating projects in a local authority are a cash cow when they are operated viably. It also paramount to note that value creation is critical in the sustainability of any organisation. However these models must continuously change to be accustomed to the newly developed demands and needs of the market. Thus the researcher recommends the following:

Products

Income generating Projects must desist from the traditional way of providing services and products. Traditionally, companies concentrated on positioning themselves in the right place on the value chain, with the right products and market segments and the right value-added services. Innovation is no guarantee for success, but recent research shows that superior market performers are essentially companies that are able to innovate and constantly transform their value proposition (Kim and Mauborgne 1997; Chen and Kai-Ling Ho 2002). Councils must continuously innovate their services and products.

Value Proposition

This is the statements of benefits that are delivered by the firm to its external constituencies (Bagchi and Tulsikie 2000). This is how an organisation offers items of value such as products/services and other complementary value added activities to fulfil customer needs and demands. Thus IGPS must ensure that there are complementary services to service and products rendered.

Perceived quality

Consumers may perceive a brand to be offering superior quality to other brands even if the perception is unwarranted. The high or unique quality of a brand is directly related to what consumers are willing to pay and to whether a firm can charge a premium. Harrel and Frazier (2005). IGP must strive for quality to capture the customer hearts.

However the dilemma is matching the IGP competences and abilities with its customers' needs within its competitive market. According to Cateora (1993), the dilemma can be

overcome by providing equal attention to design quality and conformance quality to ensure the strongest link possible between quality and strategy. Then use the Quality-Management connection to develop a strong customer orientation, integrate quality goals and facilitating mechanisms throughout the process, and focus on prevention of non-conformance.

Flexibility

Income generating projects need flexibility. Gerber (2005) argues that flexibility is the quickly response to changes in product design, product mix as well as production volumes. This type of a company develops, adapts and provides new products quickly and frequently. This means that if a customer requires a product of a different size to the one being packed, the production team has to stop immediately and change the product size without many problems.

In the case of council IGP they are providing services with no cognisance of the changing demand and needs. Products have not been changed to meet the dictates of consumers. There have stuck to the general provision of beer, natural resources outputs such as kapenta, raw timber, opaque beer and bricks.

Competitor analysis

Competitor analysis, according to Mowen (1993), is an organized approach for evaluating the strengths and weaknesses of current or potential competitors' strategies. To plan effective competitive strategies, the income generating projects managers must find out all it can about its competitors. It must constantly compare its products, prices, channels and promotion with those of close competitors.

Partnerships

This is critical in modern business arrangements to ensure effective value delivery. The appearance of such networks of firms in which market and hierarchical governance mechanisms coexist has significantly enhanced the range of possible organizational arrangements for value creation (Doz and Hamel, 1998; Gulati, 1998). Partnerships and alliances are essential for local authorities to ensure that they are viable. The research has revealed that there is need to have strategic business units that are autonomous. Traditional concepts of joint ventures (e.g. for penetration of new geographic markets) have made place to strategic alliances that aim at creating and enhancing the competitive positions of the firms involved, in a highly competitive environment (Dussauge and Garrette 1999). These help capacitate the SBUs that would have been created and resulting in the creation of a powerful entity.

Financial aspects

Financial aspects are composed of the company's revenue model and its cost structure and together they determine the firm's profit- or loss-making logic and therefore its ability to survive in competition. The IGPs have become problematic to councils due to losses, in some case the council has failed to see business logic due to continued losses. Hence a recommendation in this paradigm is critical.

LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

This study focuses on local authorities in the southern part of Zimbabwe. Not much is documented on local authorities' particularly rural district councils in Zimbabwe. Most local authorities have a culture of not recording their transactions, be in the form of minutes or information pertaining the performance of their income generating projects. This is exacerbated by the fact that some respondents and councillors were not willing to share some information that has to do with their council's performance. Hence information misrepresentation may easily arise, as some individuals would want the researcher to believe that they have got know-how on council operations, or in the event one wants to portray a bad image of their local authority.

REFERENCES

- Grant, R.M. (1995) *Contemporary Strategy Analysis*, Blackwell Publishers, Cambridge
- Kumar, R. (1999) *Research Methodology a Step by Step Guide for Beginners – SAGE Publications*; New Delhi
- Lövstål, E. (2001) *A Quest for Accounting and Control within Entrepreneurial Organisations*, The Roxtec Odyssey Licenciate Thesis. Lund School of Economics and Management.
- Malhotra, N. K. (1999), *Marketing Research, An Applied Orientation*, 3rd edition, Prentice Hall, New Jersey
- Malhotra, N. K. (2007), *Marketing Research, An Applied Orientation*, 5th edition, Pearson Education, New Jersey
- Osborne, David, and Peter Plastrik.(1997). *Banishing Bureaucracy, The Five Strategies for Reinventing Government*. Reading, MA: Addison-Wesley.
- Pinchot, G. and Pinchot, E. (1994), *The end of bureaucracy and the rise of the intelligent Organization* Boston; Irwin.
- Rural District Councils Act (29:13) 1996, Government Printers, Harare
- Schumpeter, J.A. (1934) *The Theory of Economic Development*, Harvard University, Cambridge, MA.
- Urban Councils Act (29:51) 1996, Government Printers, Harare
- Weill, P. and Vitale, M.R. (2001), *Place to Space: Migrating to e-Business Models*, Harvard Business School Press.
- Wiklund, J. (1998), *The sustainability of entrepreneurial orientation - performance relationship*. *Entrepreneurship Theory and Practice*, 24(1), 37-48
- Zikmund, W.G. (2003), *Business Research*, 7th Edition, Dryden Publishers; South West College