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## TEZĂ DE DOCTORAT

*The importance of business support services for the sustainable development of companies. The hidden unexploited added value from within companies*

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# Introduction

The 21<sup>st</sup> century has come with a lot of challenges for the existing and already established concepts in economics and business. The main determinant of the new millennium is the information revolution that is supported and leveraged by the rapid development of IT&C (information technology and communication) and that has led many concepts and principles on the brink of obsolence needing an urgent and imminent transformation.

Some of the classical economic concepts have shown their limitations and needed a new and fresh view that reflect the lessons learned of the 2008 economic crisis and the developments and changes that are driven by changes in the socio-political-, research and science-, technological and informational-environment.

The changes triggered by the information revolution have started a deep and irreversible transformation process in all branches of scientific and social activities.

For many years, during the industrial revolution, the main focus was set on the optimization and streamlining of core activities that was the main driver of profitability and efficiency. The core activities had an asympthotically increasing development leaving back a slowed down rate of development. The core activities are today at a very high level of control and efficiency that adopt and try to make the most the new possibilities and opportunities of the 21<sup>st</sup> century .

Business support activities have started slow, being at the beginning mainly clerical, simplistic activities that supported the main business activities. At the same time with the increase in complexity of business operations, the industrial revolution break throughs, the globalization and the development leaps of the information age the business support activities have started to evolve and to develop.

The indirect business activities , also known as business support activities, have transformed and evolved from business resource- and value- consuming , reactive activities to business value creators and drivers, proactive and predictive business support activities.

The importance and role of business support activities was also illustrated by Michael Porter in his value chain concept , where the support activities are shown as clear decisive business value drivers that enable the margin achievement.

Business organizations act and react through their business activities like core- and non-core-activities that give assurance for the achievement of their main strategic goal, to create value for their shareholder.

Through the discoveries and breakthroughs of the information age business support activities are increasing their business value contribution to the overall business value creation process and main purpose of a business organization , to create value for its shareholders.

## **Goal and motivation of thesis**

To be able to be competitive in the future more complex and globalized markets, morphed ambidextrous business organizations have understood that the core competence needs to be developed and promoted and their classical approach towards non-core business activities needs to change. The business support services need to be developed and contribute to the business success by attaining their contribution to the company's profitability and quest for value.

**The goal of the doctoral thesis is to show that intangible assets like knowledge and information as an output of business support services are a clear and valuable commodity of the 21st century economics that are driving the value creation process of business organizations.**

All business organizations acting in any economy have non-core activities present in their organization. The outcome of the non-core activities is a clear intangible asset that needs to have its contribution to the result of the company.

The aim of the doctoral thesis is to prove and sustain the following **research hypothesis**:

- The output of business support services is a clear intangible asset of a business organization. As any asset that is used by any company or business organization also the intangible assets need to be managed, valued, and calculated to assure the most efficient usage
- Illustration of the economic value added of the business support services
- The output of business support services can be considered as a sustainable factor and competitive advantage factor for business development
- Validation of the hypothesis through a theoretical / practical business model

The motivation and the goal of the doctoral research thesis is coming from personal professional experience in the financial and management area of business organizations. Over the last 15 years I have been active as CFO, senior executive finance and management roles within several companies, small and mid-sized companies, and complex, big corporations.

All business organizations where I have been active had one common issue, the business support services have been understated, misaligned with company business strategy and goals. The potential coming from business support activities was mostly not tapped nor fully used and exploited.

The unexploited potential was omnipresent in all companies where I have been active, that could have been used in the development and transformation of the business organizations. The transformation and business contribution of the support services has been not fully implemented nor fully used. All business organizations had various individualized optimization programs that have been driven by existing market conditions.

The rise and evolution of business value and value management leveraged by the information age has put business support services in the “driver seat” of business organizations. Business organizations morphed from reactive data provider towards proactive , predictive business partners that drive, enable and leverage the business organization. The change in paradigm enabled business support services to position themselves as one of the clear business value contributors of the business organization value chain.

Literature review has not brought up consistent and solid evidence of research that sustains the importance and usage of contribution of business support activities to the business organization value chain. During literature review there was no consistent view on the contribution of business support services towards assurance of competitive advantage and sustainable development of the business.

The existing literature on business support services is focusing on improvements and innovation of the specific, individual, corresponding business process. There is little or no consistent literature on business support services as a whole that is documenting and showing the economic value added brought by the non-core activities and corresponding business services.

## **Thesis structure**

The doctoral thesis research structure is focused on the main characteristics of the 21<sup>st</sup> century economics, value and value management, knowledge and knowledge-based organizations, value-based performance metrics of business support services.

The research structure of the doctoral thesis is based on **4 major parts**, *introduction, theoretical and conceptual research, quantitative and applied research and final conclusions*.

The **1<sup>st</sup> part** the *introductory part* is highlighting the research goal and topic with focus on purpose of thesis and research strategy.

The **2<sup>nd</sup> part** of the doctoral research thesis, the theoretical and conceptual research, will be based on 3 major chapters that detail, explain and support the content of the thesis. The 2<sup>nd</sup> part of the research thesis represents a deep and detailed analysis of the key concepts that the thesis is based on : *value and value management; knowledge, knowledge economy and knowledge based organizations; value chain* with emphasis on business support activities

The *1st chapter* is based on *Value and Value Management* that are the cornerstone concepts of modern business as the driver for value creation for shareholders and stakeholders. The clear understanding of the ultimate goal of business, value, and value management, explains the what, why and how of economics at micro and macro level.

The *2nd chapter* on *Knowledge, Knowledge Economy and Knowledge Based Organizations* is based on the earlier chapter on Value and Value Management and is meant to show, define, and deepen the understanding of value and value management in relation with knowledge, knowledge economy and knowledge-based organizations. Knowledge has caused in the 21st century the reconsideration of certain classical economic concepts and principles. The basic concepts have suffered a redo in context of knowledge and information and in the view of the 21st century economics.

The *3rd chapter* is dealing with the concept of Porter's *Value Chain*, its meaning, history, development, and usage for business organizations. The value chain will be illustrated for the most relevant business support activities. The concept will be looked at from the perspective of business support services and value creation process. The value chain concept will be used to determine and highlight the value contribution of the business support activities as business value drivers. This chapter dealing with the description and analysis of the business support services. Emphasis will be on the value flow and value creation process. "Unproductive" or "value consuming" business activities and processes are considered a waste of resources and should be minimized or eliminated. Therefore, the best understanding of business support services, their role and importance are of utmost significance.

The **3<sup>rd</sup> part** of the research thesis consists in 3 chapters: *value evaluation and measurement, value contribution of business support services – calculation model* and *in-depth interview*.

The *1<sup>st</sup> chapter, value evaluation and measurement*, is emphasizing the importance, the methods and the performance indicators that can be used in the modern business organization value driven performance evaluation. Value driven performance metrics like Economic Value Added, Cash Value Added and Economic Profit are presented, their history, development, usage, and content are researched and linked to the value contribution of business support activities through a calculation model.

The *2<sup>nd</sup> chapter, value contribution of business support services – calculation model*, is presenting a value-based performance evaluation model that captures and highlights the value creation of business support services through usage and application of value driven performance metrics.

The *3<sup>rd</sup> chapter* is showing the *validation, acceptance, and perception* of the presented *value-based performance evaluation model* by the Romanian *business environment senior executives*. The validation, acceptance and perception of the presented model was assessed using an in-depth interview that received answers from senior executives and professionals active in business organizations that operate on the Romanian market. The in-depth interview will have a detailed presentation of its items and answers, answers that are looked through the business support activities perspective and their perceived acceptance as a business value creator and driver

The **4<sup>th</sup> part , Final Conclusions**, of the doctoral paper is based on the *research conclusions* that underline and leverage the theoretical and conceptual research, the quantitative and applied research and the thesis final conclusions.

The *1<sup>st</sup> chapter* of the **Final Conclusions** is based on the **conclusions of the theoretical and conceptual research**. The general, theoretical and conceptual conclusions emphasize the researched topics and leverage the research hypothesis.

The *2<sup>nd</sup> chapter* of the **Final Conclusions, Personal Contribution**, and research hypothesis, sustains the research hypothesis of the doctoral thesis and presents the personal research contribution to the topics studied.

## Thesis novelty and relevance

The research thesis had as a starting point the following research hypothesis:

- The output of business support services are clear intangible assets of a business organization. As any asset that is used by any company or business organization also the intangible assets need to be managed, valued and calculated in order to assure the most efficient usage
- Illustration of the economic value added of the business support services
- The output of business support services can be considered as a sustainable factor and competitive advantage factor for business development
- Validation of the hypothesis through an theoretical / practical business model

The research hypothesis have been tailored for a specific and clear issue of business management, evaluation and determination of the value created by business support services.

The 21<sup>st</sup> century information driven business organizations rely on the proper and timely management of available, business relevant information for their business management decision process.

A major business information provider are the business support services that acquire, process, manage and distribute business relevant and specific data, information and knowledge.

The 21<sup>st</sup> century business support activities have as their core activity the assimilation and processing of business relevant information. The output of the business support activities is based on processed specific and relevant reports, data and information that is provided and used by the business management to take further management decisions.

Therefore, the used intangibles (data, information) are deeply involved in the core business activities by assuring a sustainable and continuous flow and supply of reasonable certainty and business knowledge.

The classical approach, accounting based view, can not be used to evaluate the value created by the used intangibles. Value based performance metrics are needed to evaluate the value creation process of business support activities.

Value management has become more and more important in the daily business management and operations. A new breed of value performance metrics had to be adopted by the business world. Economic Value Added , Cash Value Added, Economic Profit are some of the value

driven performance metrics that have been mainly used in relation to the capital market and investor perspective where a value driven return was needed.

At business organization level value driven performance metrics have been adopted mainly to improve and streamline the direct productive activities. Business support activities have been marginalized from this perspective. By using value driven performance metrics also for business support activities a more detailed and more value contributor based view is available for the business analysis.

The model proposed by the current thesis is using existing value driven performance metrics in a new context. The new context is leveraging the output of business support activities by showing the value contribution that enforces and strengthens business sustainable competitive advantage.

The better the business organization is managing to use all available relevant business information the more sustainable and the better competitive advantage it gets. The suggested performance value driven evaluation model and the integrating concepts have been tested and validated through a quantitative in-depth interview with business managers and executives.

The data provided by the in-depth interview are not representative from the statistical point of view for the Romanian business environment. Due to the heterogeneous nature of businesses in terms of location, size, type and majority of shareholders give an indication readiness of the Romanian economy for the challenges and opportunities of the information age, the age where data, information and knowledge has become the prime commodity.

The globalization puts Romanian business organizations regardless of their majority shareholder, size, type and location under the pressure of catching up and to assimilate the new *rules of the game* called the 21<sup>st</sup> century market competition. Romanian business organizations must be innovative, creative and resourceful in their global quest for the sustainable competitive advantage.

The Romanian business organization have embraced the challenges and opportunities of the information age indicated by most of the in-depth interview respondents due to also requirements of their mother companies. The presence and usage of IT&C technology is not enough if the provided data, information and knowledge is not capitalized and leverage to its maximal extend.



2018 Romania is facing both ends of the IT&C adoption, high tech and globally competitive business organizations have emerged and business organizations that are still run with very rudimentary and basic IT&C support.

Over the years Romania has become a IT&C knowledge pool that is worldwide recognized and appreciated mainly not by local Romanian business organizations but more by foreign, local operating, business organizations. Presently the Romanian economy is not ready to change and to create value also from data, information and knowledge that it owns. The first steps have been already made, Romania has one of the best internet infrastructures in the world, placing the country permanently in the top 5 worldwide.

There is still a considerable share of business organizations that are not ready to change and to jump into the new data, information and knowledge driven economy. At the level of top management and driven by the foreign majority shareholders local business organizations have adopted and implemented the concepts of value management and value recognition within their business processes.

There are companies that realized the hidden potential of value management and value assessment and usage and have set up value driven business processes. The knowledge created by business organizations is stored and disseminated within their organizations. The acknowledgement of value contribution from business support activities is still in early stages.

Many of the business support services are still tributary to the industrial, classical perception as value consumer and not as value creators and drivers. The capitalization of knowledge and information from business support services is still in its early stages, many of the expressed opinion indicated the need for more change in this aspect to assure the needed innovation and sustainable competitive advantage that Romanian business organizations need for the global competition.

The *late start* in the information age change process can be considered an opportunity that the Romanian business environment has to take to be able to increase its competitiveness. Most of the respondents indicated that value, value management and value-based management is an opportunity that must be capitalized.

Business support services are still in the early stages of the change process towards being a decisive and certain business value creator. Accounting (financial and management accounting) are still not used to their maximal potential for the business decision process and for business

management. Romanian financial statutory accounting is still very much tax driven and nowhere close to provide business management and business process relevant information. Management accounting is still not completely capitalized especially through the perspective of the information age where the new technological IT&C breakthroughs have made better data processing and dissemination possible.

Romanian accounting is still very reactive, not very much IT&C support driven, and not business proactive through the usage of available data, information and knowledge that resides in business support activities.

Legal services have not a considerable business impact in the business value creation process due to the lack of communication. Most of legal services are still used only to *secure and mitigate* business risks and transactions, no considerable or material involvement in M&A transactions is present.

Human Resources Management is having one of the highest perception scores in the value creator role and created value due to the proximity to the operational part of the business activities.

IT&C is present and defines itself as a solid and definitive hurdle in the 21<sup>st</sup> century globalized business environment by enabling and leveraging the needed and owned data, information and knowledge. IT&C has become the tool for managing and running the 21<sup>st</sup> century information age determined markets and business organizations.

Procurement is still in its early stage, not many business organizations have capitalized and gained competitive advantages through it. The essence of a profitable, efficient and performant procurement lies within accurate, timely and accessible information that has been enabled by the information age.

Only about 50% of the respondents have embraced and use value driven performance evaluation tools and concepts. This indicates still a high resilience to the challenges and opportunities of the information age.

By recognition, acknowledgment and valuation of the available untapped information pool further improvements and efficiency increments can be achieved. Most of the respondents have also indicated the clear need to develop themselves, to adapt and adopt the realities of the *new economy* where data, information and knowledge are the *prime commodity*.

The knowledge pool from within the business organizations residing in the business support activities is mainly unused due to lack of information, willingness, knowledge and economic reason. Most of the business support activities need to start their morphing from the *classical* approach to the knowledge and business value driver.

## **Personal contribution to the research topic**

The main reason for the topic of the doctoral research came out of the personal professional practical need and experience where business support activities output has been underestimated and sometimes even ignored due to simplistic view of the value contributor role, support activities being indirect productive therefore not having a direct and clear business value contribution.

The 21<sup>st</sup> century, a century driven by the information revolution, has changed the way that many classical concepts have been understood and read.

The present doctoral research is one of the first that approaches the business support activities from the perspective of the value creation process. Value creation at business organization level can be considered the sum of direct and indirect productive business activities. The value creation and contribution of direct productive business activities is uncontested, proven and sustained by the industrial revolution through different performance optimization and measurement philosophies.

The performance and value contribution of business support services, as indirect productive business activities, is considered marginal or arbitrary measured by classical performance metrics.

For the highlighting of the value contribution of business support services, value driven metrics like EVA (economic value added), CVA (cash value added) and EP (economic profit) have been used. The value driven performance metrics for business support services allow executives and business managers to have a strong tool for the evaluation of the value contribution of their indirect productive business activities. The presented calculation model relies on accepted and proven performance metrics, the adoption and application for business support services is going one step further, it's a change in mindset like value based management is to the classical management methods.

The reviewed literature has focused on either the market and capital perspective or on individual business support activities that somehow needed some streamlining and operational efficiency increments.

Through the literature review process there was none of very little evidence of a complex and comprehensive approach to business support activities from the perspective of business value creation and contribution. The business value creation process can not be regarded as being driven only by direct productive activities, the business support activities as indirect productive activities have a decisive and quantifiable value contribution to the business value creation process.

When facing business streamlining, business process re-engineering and business restructuring business management is using only the *classical* cost perspective where the cost aspect is the only regarded factor.

The business value creation aspect is very little or not considered at all.

When using the cost perspective for example in decision of insourcing or outsourcing the value contribution aspect is completely disregarded, the cost approach is mainly at transaction level and is not considering the business organization value creation process.

When looking at the business support activities, especially when talking about business process improvement additional to the cost perspective the value creation and contributor aspect has to be analysed because costs and value creation are not directly proportional.

To avoid inconsistent reductions in value determined by cost reduction the value creation and value contribution needs to be assessed and considered.

The value creation and contribution can be assessed by using the model suggested in the present doctoral research. The simplified model to evaluate value creation and value contribution has made use of existing value performance metrics like Economic Value Added, Cash Value Added and Economic Profit and has put them into a new context of value creation and contribution assessment and evaluation of business support activities. The suggested model was tested and validated by the in-depth interview with senior managers and business executives.

The in-depth interview of the business senior managers and business executives confirmed the demand and need for an additional more refined approach to business value creation and contribution where only the classical cost perspective is not sufficient. There is a clearly defined

demand for something new that overhauls the classical concepts and that needs to cover the requirements of information driven value management and that captures the created value by business support activities by capitalizing on the available existing, relevant business information to assure the needed sustainable competitive advantage.

The personal contribution of the present doctoral thesis can be summarized as follows:

- the motivation of the thesis is generated by several years of practical experience in different and diverse business organizations that all have not touched the value creation aspect of the 21<sup>st</sup> century information and knowledge driven economy
- the thesis approaches one of the *traditionally* underestimated and underrated business activities, the business support activities. The approach is not at singular and distinct level with particular, individualized conclusions
- the thesis is one of the first that approaches the value contribution of business support services *in corpore* and not at distinct and particularized level
- the thesis uses accepted and known concepts to determine a change in mindset of corporate executives and business managers
- the thesis is *pushing the envelope* of value management driven by information and knowledge management that gives the 21<sup>st</sup> century businesses a powerful conceptual framework and tools to improve, measure and develop their business results
- the thesis is satisfying a demand and need of the business environment , the scope, concepts and calculation methodology has been validated by corporate executives and business managers
- the presented concepts and models of the thesis can determine a next evolutionary and development step in any business organization that strives towards the sustainable competitive advantage

The thesis topic, motivation, concepts and models are coming from real business life and are valid for all types of business sizes from entrepreneurial organizations to corporate organizations.

The thesis is backed by extensive practical experience and now, through the doctoral research, also by an deep and detailed academic background. The thesis takes the value- , information and knowledge based management- theory and is combing it with practical business administration aspects that , if used properly, can drive towards performance and competitive advantage increase while there is still time.

Globalization, digitalization and internationalization of markets have determined an irreversible change through the world. The quest for the sustainable competitive advantage has restarted, it begins with a change in mindset of business leaders and professionals that have to match the requirements of the 21<sup>st</sup> century.

Romanian economy is still in its early stages when talking about the requirements of the 21<sup>st</sup> century information age. The first steps have been made , like high rate adoption of IT&C , academic and professional business driven knowledge pools. Classical promoters, like IT companies, have pushed the boundries of the Romanian early stages of the 21<sup>st</sup> century requirements.

The present thesis provides the conceptual framework and tools that can be usded by the Romanian business organizations to evolve and to adapt and adopt the *new values* of the 21<sup>st</sup> century.

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## **Annex 1**

The most important steps in the development of Knowledge Management according to Karl Wiig.

1975 -- As one of the first organizations to explicitly adopt a knowledge-focused management practice, Chaparral Steel bases their internal organizational structure and corporate strategy to rely directly on explicit management of knowledge to secure technical and market leadership -- without the assistance of information technology. Chaparral still does not rely much on IT for its extensive KM practice and remains the quality and efficiency world-leader among mini-mills.

1980 -- Digital Equipment Corporation (DEC) installs the first large-scale knowledge-based system (XCON) for support of its configuration engineering and sales functions.

1981 -- Arthur D. Little starts the Applied Artificial Intelligence Centre to build practical knowledge-based systems (KBS) for commercial and Government clients.

1986 -- The concept of “Management of Knowledge: Perspectives of a new opportunity” is introduced in a keynote address at a European management conference sponsored by the International Labour Organisation of the United Nations.

1987 -- The first book relating to KM is published in Europe (Sveiby & Lloyd: “Managing Knowhow”).

1987 -- The first roundtable KM conference “Knowledge Assets into the 21st Century” Hosted by DEC and Technology Transfer Society at Purdue University.

1989 -- A survey of Fortune 50 CEOs’ perspectives on KM by is undertaken in which all agree that knowledge is their organization’s most important asset -- but no one knows how to manage it.

1989 -- The Sloan Management Review publishes its first KM-related article (Stata: “Organizational Learning -- The key to management innovation”).

1989 -- Several management consulting firms start internal efforts to manage knowledge.

(Price Waterhouse integrates KM into its strategy.)

1989 -- A few small and specialized consulting firms offer KM-specific services to clients.

1989 -- The International Knowledge Management Network is started in Europe.

1990 -- The Initiative for Managing Knowledge Assets (IMKA) is started by a consortium of several U.S. companies to provide a technological base for KM.

1990 -- In Europe the first book on the learning organization is published (Garratt: "Creating a Learning Organization: A guide to leadership, learning & development").

1990 -- In U.S. the first books relating to KM are published (Savage: "Fifth Generation Management" and Senge: "The Fifth Discipline: The art & practice of the learning organization").

1990 -- The French Grande Colloquium de Perspective provides major address on "Knowledge Flow in a Global Innovation Management System."

1991 -- Skandia Insurance creates the position of Director of Intellectual Capital.

1991 -- The first Japanese book relating to KM is published in the U.S. (Sakaiya: "The knowledge value revolution"}).

1991 -- Fortune runs the first article on KM (Stewart: "Brainpower").

1991 -- Harvard Business Review runs its first article on KM (Nonaka: "The knowledge creating company").

1992 -- Steelcase and EDS cosponsor conference on Knowledge Productivity.

1993 -- In Europe, an important KM article is published (Steels: "Corporate Knowledge Management").

1993 -- The first book explicitly dedicated to KM is published (Wiig: "Knowledge Management Foundations").

1994 -- The International Knowledge Management Network expands its scope to include the Internet.

- 1994 -- The International Knowledge Management Network conducts a conference “Knowledge Management for Executives” with over 100 European participants in Rotterdam. Université de Technologie de Compiègne (France) holds its first annual KM conference.
- 1994 -- Several large consulting firms offer KM services and start seminars for prospective clients on KM.
- 1994 -- Knowledge Management Network and FAST Company magazine are founded in the U.S..
- 1995 -- The European ESPRIT program includes explicit requests for KM-related projects.
- 1995 -- American Productivity & Quality Center (APQC) and Arthur Andersen conduct the “Knowledge Imperatives Symposium” with over 300 attendees. Other KM conferences and seminars are held in the U.S. and Europe.
- 1995 -- APQC initiates a multiclient KM Consortium Benchmarking Study with 20 sponsors.
- 1995 -- The Knowledge Management Forum is started on the Internet.
- 1995 -- KM Focus is broadened to include research on intellectual work (Suchman, 1995).
- 1996 -- Several KM conferences and seminars are held in Europe and the U.S. organized by both general conference organizers and consulting organizations.
- 1996 -- Over one dozen large consulting organizations and many smaller ones offer KM services to clients.
- 1996 -- Many companies are starting KM efforts -- some with internal resources only, others with assistance by outside organizations.
- 1996 -- The European Knowledge Management Association is started  
(Wiig, Knowledge Management: Where Did it Come From and Where Will It Go?, 1997)