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Emerging Promise of Business Ecosystem

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ABSTRACT

Business Ecosystem, being a new area in the field of business, has attracted much attention of the research scholars and also the general readers in recent times. That is why this paper attempts to study various aspects of business ecosystem like its definition, objectives, principles and practices. As businesses have become more and more modularized, characterizing entity relationships and understanding how business decisions or actions are taken by one entity impact all of the interrelated entities, both within and among enterprises. Ignoring these interactions can lead to unexpected and potentially undesirable outcomes. Tools that help to systematically characterize the business ecosystem and analyze the potential impact of different business decisions on each entity in the network are essential for improving business design.

Key Words: Business ecosystem, niche players, keystone organization.

Introduction: Business Ecosystem is a new concept in the field of business. In fact, Business Ecosystem is a very complex and ever-changing process. It is observed that new companies constantly enter, exit, and take on different roles during the process of their development. Ecosystem entities are organizations that your company depends on in order to do its business. Entities can include supply chain partners such as suppliers and distributors. However, the ecosystem approach goes beyond the traditional supply chains to examine the more complex web in which a company operates.

The network of organization includes suppliers, distributors, customers, competitors, government agencies and so on

involved in the delivery of specific products or services through both competition and cooperation. The idea is that each business in the ecosystem affects and is affected by the others, creating a constant evolving relationship in which each of them must be flexible and adaptable to survive in this biological ecosystem.

Objectives: The current paper focuses on the following objectives:

1. To look at business ecosystem as an innovative approach
2. To identify entities of ecosystem
3. To identify solutions for business risk involved due to the degradation of ecosystem
4. To study Ecosystem Valuation

Research Methodology: The data is collected from all possible primary and secondary resources like the field visits, annual reports, and questionnaires.

❖ **Entities of Eco System:**

To identify entities in business ecosystem, one should ask following questions:

1. What and who does the company depend on in order to operate?

Most companies have hundreds of people, ideas, and materials that are critical for its operations. Start by listing supply chain partners such as vendors, distributors, manufacturers, and customers. Then consider other entities that provide critical resources, services, or ideas to the organization. For example:

- The government recognized years ago that spouses of enlisted soldiers make up an important part of the military ecosystem. Spouses now receive job placement, counseling, and other services so they can support their enlisted partners.
- Pharmaceutical companies require patent attorneys, researchers, and clinical trial participants in order to be successful. These groups aren't part of a standard supply chain, but they provide critical resources, services, and ideas.
- Hollywood's ecosystem contains the obvious actors, directors, producers, and cinematographers who produce films. But without the media, few people would see movies.

2. Who must succeed in order for customers to use the company's products and services?

In a business ecosystem, other companies must succeed in order for an organization to achieve its goals. For example, MRF cannot sell tires unless people buy cars.

Keystones: Keystone organizations are the centerpieces of the ecosystem, generating metaphorical food for others. They accept a broad view of success by inviting partners to expand, grow, or innovate on their core products.

Microsoft is a good example of a keystone organization. It creates products, such as Windows and Microsoft Office, which provide sustenance and livelihood to many organizations that have emerged to support them. For example, software companies develop specialized packages to run on the Windows operating system. Trainers, resellers, developers, and system integrators all benefit from their association with Microsoft.

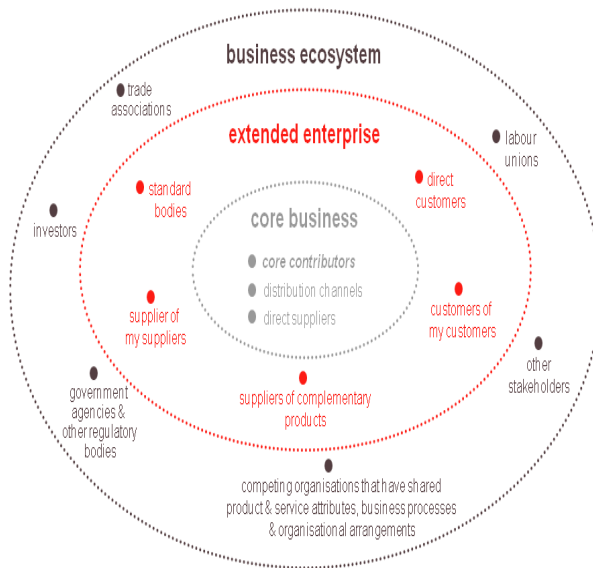
Niche Players: Niche players grow in relation to the keystone organization and profit from their proximity to it. Each niche player develops a specialized place within the ecosystem, developing unique products or services that fulfill a particular need. For example, Priceline.com carved out a specialized niche by offering online bidding for low-cost airline fares.

Recyclers: Recyclers fill a special niche that deserves mention. These companies follow larger companies and transform the

remnants of their work into a viable business. An obvious example is the growing green clothing industry that transforms used soda bottles into attractive fleece jackets.

Commodity Providers: These organizations provide simple, transactional services to organizations in the ecosystem. Companies in India, China, and other rapidly developing countries sell low-cost coding services. These commodity providers can face stiff competition. Yet they play a vital role to the survival of ecosystem companies

business ecosystem actors



based on: James F. Moore, *death of competition*, John Wiley & Sons, USA, 1996

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The value of nature: Natural Capital is the term given to the planet's renewable and non-renewable natural resources – land, atmosphere, water, and the many diverse

ecosystems that support life. Natural capital provides economically valuable goods and services, or “ecosystem services.” Some of these have well-defined markets; these include minerals, oil, gas, commercial forests, and fisheries. Others are not traded in markets but sustain life; these include soil microorganisms, the atmosphere, and the quality of water used for consumption or production.

Virtually every business activity benefits from natural systems in some way. For example, fresh water is critical to many industrial processes, from agriculture to mining; wild genetic resources underpin the pharmaceutical sector; natural environments drive the tourism industry; and intact wetlands and forests protect buildings from flooding, storms, and other natural disasters. Even labour productivity is affected by natural capital: healthy environments improve workers' mental and physical health and reduce absenteeism.

Decision makers often don't think about ecosystem services. This is partly because many ecosystem services are not traded in markets – they simply can't be owned. All too often, people only appreciate the value of an ecosystem service when it becomes damaged or scarce. Ask the farmer who needs to artificially pollinate his crops, or the business owner whose insurance premiums increase when degraded local wetlands and forests lead to flood damage on his property. Regulation can protect some ecosystem services, but it is a limited solution.

Risks and opportunities for business:

Businesses can incorporate natural capital into their planning. Environmental degradation poses business risks, and environmental protection can provide opportunities.

- **Recognizing business risks:** When natural systems decline, business risks emerge. Businesses need to make sure that they – or others responsible – protect the resources they rely on. For example, a forest company will face declining productivity of second and third growth timber if it fails to invest in land productivity. A food processor, dependent on clean water, will face higher production costs if it has to pre-treat the water it uses. Businesses also need to make sure that their treatment of natural capital meets the standards of different external groups. Advances in natural capital measurement will lead to increased scrutiny of business impacts by stakeholders and customers, as well as increasingly stringent environmental regulations. Risks may also be indirect, as when different businesses draw on competing ecosystem services. For example, a manufacturer may face rising costs for raw materials due to competition for land use.
- **Recognizing business opportunities:** If businesses identify, assess, and manage risks to ecosystem services early, they will have a competitive advantage. Businesses that understand their relationship with natural capital can find untapped opportunities to address its

decline. Some will capitalize on maintaining the environment. They might develop new technologies and production practices that reduce degradation and increase efficiency. Others will differentiate themselves from competitors by integrating natural capital considerations into their management systems and planning; investors and customers increasingly reward such foresight.

Five key steps for business: Business owners and managers should take these steps to minimize risks and maximize opportunities associated with natural capital. Traditional environmental performance measurement and planning does not address natural capital systematically, in part because the issues vary from sector to sector and sometimes within sectors. Links between businesses and natural capital depend on the location of the business, the source of raw materials, the location of customers, and the technologies employed. Working through these five steps may show that a business has thoroughly identified some threats (e.g. climate change), while not considering others (e.g. loss of habitat).

1. Select the scope: A business should start by choosing a boundary for its initial natural capital analysis. The focus might be a particular location, business unit, product line, facility, product, customer segment, or natural asset owned by the company. The scope should be strategically important. Examples include a fast growing market, a major product line, or the business unit with the largest market share. There should be

internal support for the selected scope so that it is capable of influencing business decisions.

2. Identify priority ecosystem services:

Once the scope is selected, businesses should ask which ecosystem services may affect operations. Businesses should look upstream in the value chain to understand how key suppliers impact ecosystem services, as well as downstream to understand their products' impacts on ecosystem services. Gather a list of 10-15 ecosystems services the business impacts and/or depends on, and prioritize the top 3-5 for the next step. Prioritize ecosystem services that meet these criteria: (1) they serve as an input into business processes or increase the likelihood of business success (i.e. they are vital for the business); (2) they do not have a low-impact, cost-effective substitute (i.e. they are difficult to replace).

3. Analyze trends in priority ecosystem services:

For each priority ecosystem service identified in step 2, get a sense of its current condition and future prospects. How stable is it? Is there reason for concern? Information on the status of specific ecosystem services is provided by the Millennium Ecosystem Assessment, which details international trends in its report for business and industry, as well as by national and local publications on the health of the environment.

4. Identify business risks and opportunities:

Assess business risks and opportunities that arise from the condition and trends identified in step 3. These could occur at a range of levels, including

operational, regulatory, reputational, market, or financial. For example: The operational risk of increased freshwater scarcity could lead to the opportunity to build an on-site wetland to filter wastes.

The regulatory risk of new user fees could lead to the opportunity to work with government to develop new incentives to protect and restore ecosystem services.

The financial risk of the higher capital costs as investors implement more rigorous investment criteria could lead to the opportunity for more favourable financing terms for companies that improve resource efficiency.

5. Develop strategies:

With a list of potential risks and opportunities, begin to design strategies to minimize the risks and capitalize on the opportunities. Three types of strategies are possible. Internal changes might include altering operations or product and market strategies. Sector or stakeholder engagement allows businesses to address risks and opportunities collaboratively – for example, paying landowners to protect a water supply. Policymaker engagement draws on government's power to protect ecosystem services. The appropriateness of each strategy depends on the specific situation; consider common criteria such as return on investment or ease of implementation.

These steps will make a business part of the new paradigm in which firms work to protect natural capital and its related ecosystem services – benefiting the bottom line and the broader planet.

Scoping the Ecosystem Valuation

Initiative: Ecosystem valuation provides a tool to help managers develop strategies to manage business risks and opportunities arising from their company's dependence and impact on ecosystems. Its scope does not however extend to ecosystem valuation or to financial analysis and reporting.

Not only does the loss of ecosystem services pose substantial risks to corporate profits and production, ecosystem services can also present lucrative new business opportunities. However, while leading companies acknowledge the importance of tackling these issues, many are still struggling to identify exactly how to integrate such information into their management decisions and financial reporting.

Economic valuation provides one approach that could have the potential to help in addressing this challenge. By quantifying ecosystem relationships and expressing them in monetary terms, it provides a series of measures that can in principle be integrated with conventional financial measures and linked directly to a company's bottom line.

The application of ecosystem valuation techniques to business concerns is, however, still at an embryonic stage. An important question therefore arises as to whether and how the discipline, as currently practiced, lends itself to use by the corporate sector. As yet there is little guidance available on this topic. Focus with the aim of filling these knowledge gaps and

informing the design of the Ecosystem Valuation Initiative.

The following document reports on this scoping study, and aims to answer the following questions:

- What is the current state of play as regards ecosystem valuation methods, practices and applications?
- How far are these experiences and techniques relevant for business?
- In the light of the above, what are the needs, gaps, opportunities and ways forward in developing the Ecosystem Valuation Initiative?
- ❖ Case : Reducing the risk of ecosystem service degradation through watershed protection (Coca Cola)

Valuation methods: Cost effectiveness analysis

Business motivation: To minimize costs and maximize cost effectiveness of production by reducing ecosystem water service risks and to deliver local social and environmental benefits.

Outcome: Highlighted the financial, social and environmental rationale for investing in source protection. The Coca Cola Company oversees the operation of more than a thousand beverage manufacturing plants in nearly 200 countries around the world. Water is an essential ingredient to their products. To assure high quality water in production, Coca Cola plants operate a complete multiple-barrier water treatment system, with source ecosystem protection forming an important part. To assure a continuous supply of high quality

freshwater, all facilities are expected to evaluate the reliability of water sources on which they depend.

Watershed management initiatives are seen as a way of reducing treatment costs by improving the quality of the water inputs at the source. Reduced microbial load and lower concentration of nutrients, which will generate less algae, limit the need for expensive treatment steps.

The Coca Cola Company has recently undertaken source protection planning, a cost-effective program to improve the safety of their water treatment systems, without increasing treatment costs. Source protection plans must include a comprehensive assessment of potential sources of contamination, strategies to protect wellheads and aquifer recharge zones, and active participation in local watershed management efforts. A self-assessment tool was developed to support long term planning of water use for the bottling operations as well as for their broader hydrographic basins.

One example of the application of these tools and approaches is in the watershed for the Jundiaí bottling plant in

Brazil. This is the world's largest Coca Cola plant in terms of production capacity. Since 1995, more than US \$ 2 million has been invested in partnership with the municipality and other businesses to protect the Jundiaí River watershed, the primary source of water for both the city and for Coca Cola's bottling plant. As a result, two key sanitation projects (a new solid waste landfill and a new wastewater treatment plant) were built, dramatically improving the quality of the water reaching the reservoir. The plant also improved water use efficiency by lowering its usage ratio from 2.9 to 1.7 liters of water per liter of beverage.

Conclusions: As businesses become more and more modularized, characterizing entity relationships and understanding how business decisions or actions taken by one entity impact all of the interrelated entities, both within and among enterprises, become a key challenge. Ignoring these interactions can lead to unexpected and potentially undesirable outcomes. Tools that help to systematically characterize the business ecosystem and analyze the potential impact of different business decisions on each entity in the network are essential for improving business design.

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