

Profit Seeking Dynamic Model: Unifying Framework of Firm Performance

Kim In-Ho Stephen

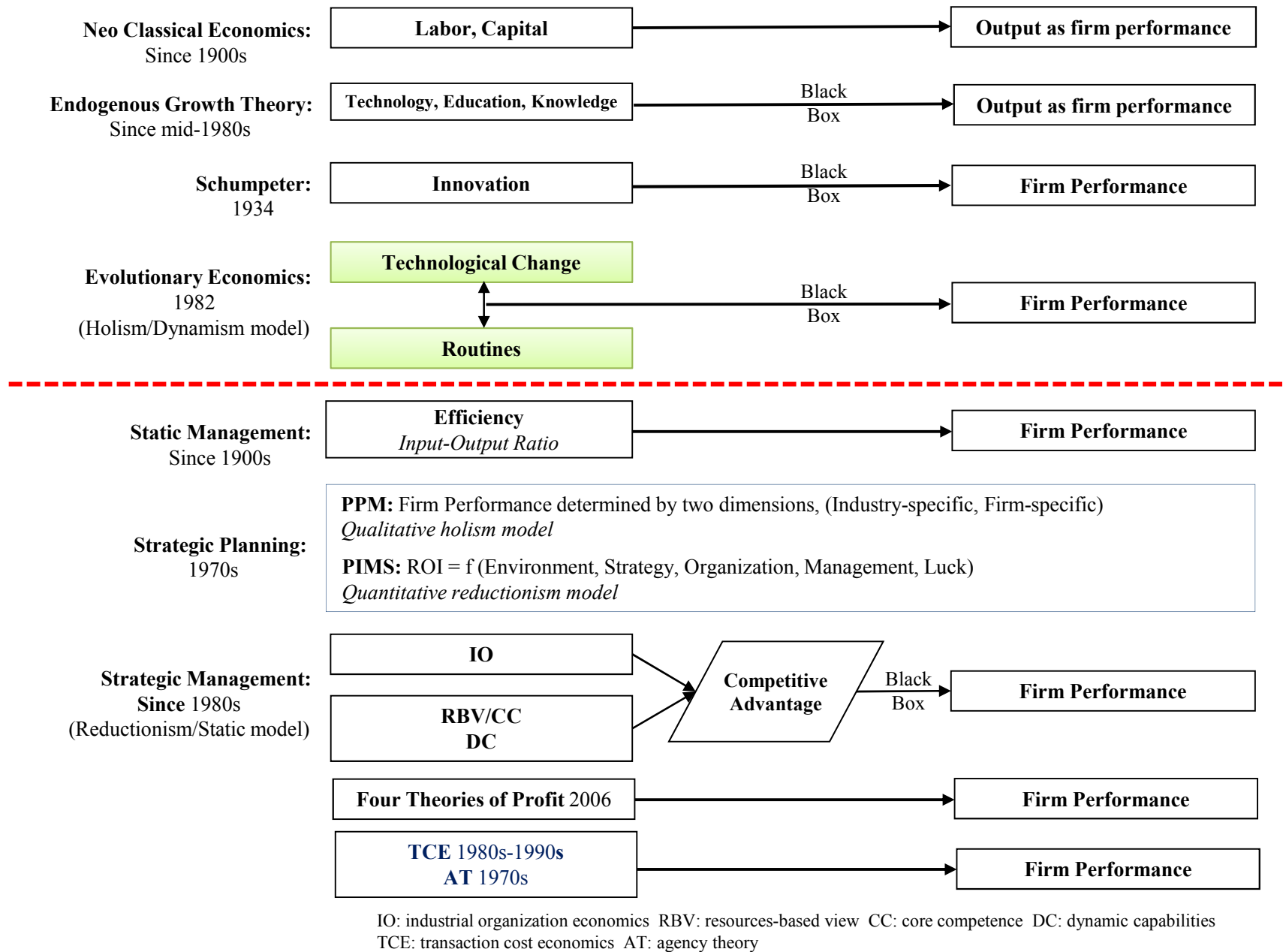
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There are no holistic models/theories about firm performance in economics and business administration except Evolutionary Economics (EE)

Characteristics of the existent models/theories in economics and business administration

	NCE	RBV/CC/DC	IO	TCE	AT	EE
What Firm is	Black Box	Collective Agent of Resources	Entity of Competition	Coordinator of Transaction cost	Nexus of Contracts	Collective Agent of Routines
Firm as An Organization	Homogeneous	Heterogeneous	Implicitly Heterogeneous	Implicitly Heterogeneous	Implicitly Heterogeneous	Heterogeneous
Individual in an Organization	Rational Economic-Man With Hyper-rationality	Implicitly Man with Bounded Rationality	Implicitly Man with Bounded Rationality	Implicitly Man with Bounded rationality	No considering	Implicitly Social Man with Bounded Rationality
What Industry is	Market/ Competitive Structure	No considering	Competitive Structure	No considering	No considering	Bio-Ecological System
Market as Place for	Exchange between Producer & Customer	Making sure Competitive Survival	Obtaining Competitive Position	Coordinating Transaction Costs	Corporate Governance	Survival of the Fittest
Industry Evolution Depends upon	No considering	No considering	No considering	No considering	No considering	Technological Change & Routines Not Customer
Static/Dynamic	Static	Static/Dynamic	Static	Static	Static	Dynamic
Mechanism to explain Profit	Profit function (Deterministic)	Competitive Advantage	Competitive Advantage	Corporate Governance	None	Adaptive Efficiency
Decision-Making Mode	Optimization	Implicitly Satisficing	Implicitly Satisficing	Implicitly Satisficing	Game theory	Competitive Selection
Philosophical Standpoint	Reductionism	Reductionism	Reductionism	Reductionism	Reductionism	Holism

NCE: neo-classical economics RBV: resource-based view CC: core competence DC: dynamic capabilities

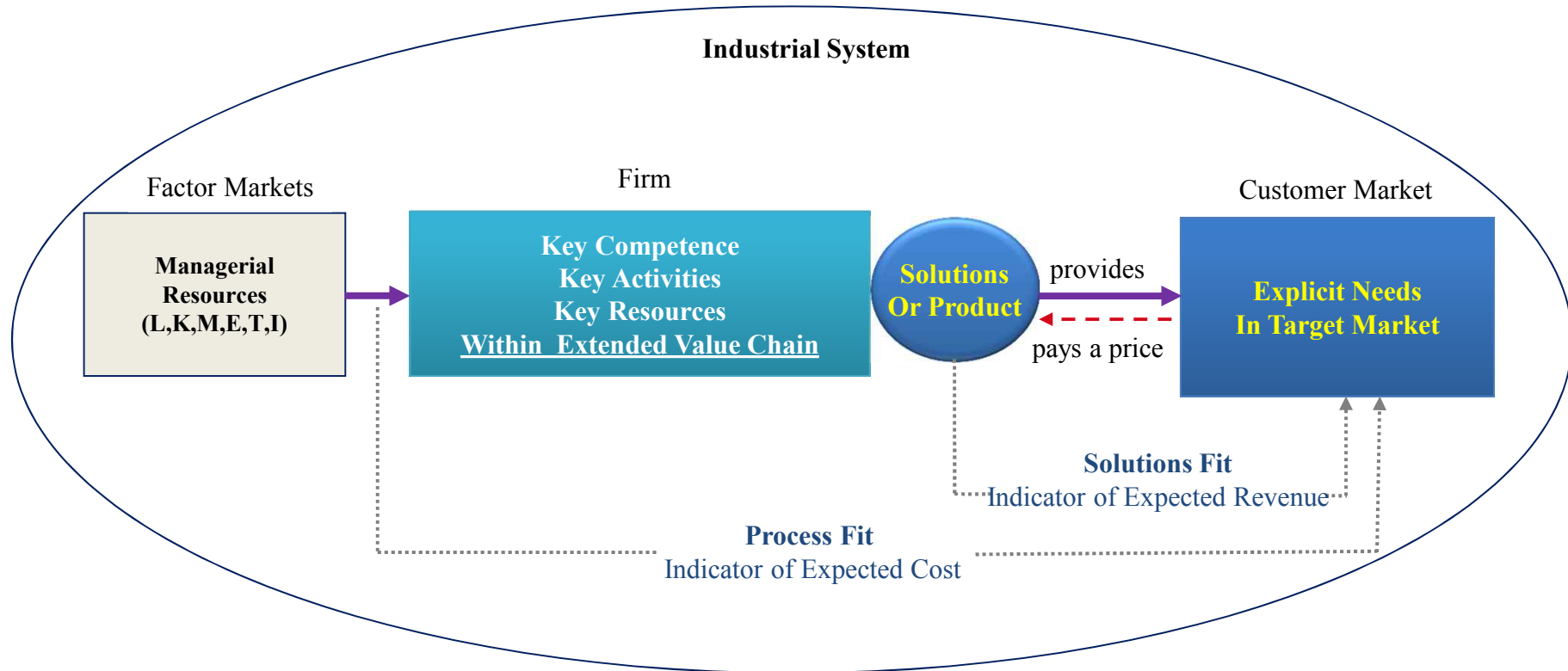
IO: industrial organization economics TCE: Transaction Cost Economics AT: agency theory EE: evolutionary economics

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The Existent Paradigms	Paradigm Shift	The Emerging Paradigm
Closed / Static / Independent/ Firm-centered / Divergence Linear system	<i>Business Boundaries And System States Due to Technological Change</i>	Open / Dynamic / Interdependent/ Customer-oriented / Convergence Non-linear system
Firm	<i>Bargaining Power Shift</i>	Customer
Passive Responder	<i>Nature of Customer</i>	Active Player
Actual Needs (Purchasing Power)	<i>Source of Revenue</i>	Explicit Needs (Purchasing Power + Willingness to Pay)
Adaptation to Environmental Changes <i>Competitive Advantage</i>	<i>Focal Point Of Strategy</i>	Adaptation to Technological Change and Needs Evolution <i>Adaptive Goodness</i>
Core Competence Dynamic Capabilities	<i>Driver of Profit Seeking</i>	Needs-Focused Innovation
Reductionism <i>Ceteris Paribus Models</i>	<i>Standpoint of Theorizing Profit Seeking</i>	Holism <i>Holistic Business Models</i>

Technological Change (e.g. SNS, Big Data, IoT) triggers paradigm and power shifts, requiring quite different mindsets, standpoints, recognitions and viewpoints.

Profit Seeking at a given point in time depends on Solutions Fit and Process Fit



Profit Seeking at a given point in time:

$$\text{Expected Profit} = \text{Expected Revenue} - \text{Expected Cost}$$

$$= f(\text{Solutions Fit, Process Fit, } e)$$

:Solutions Fit as indicator of expected revenue; Process fit as indicator of expected cost

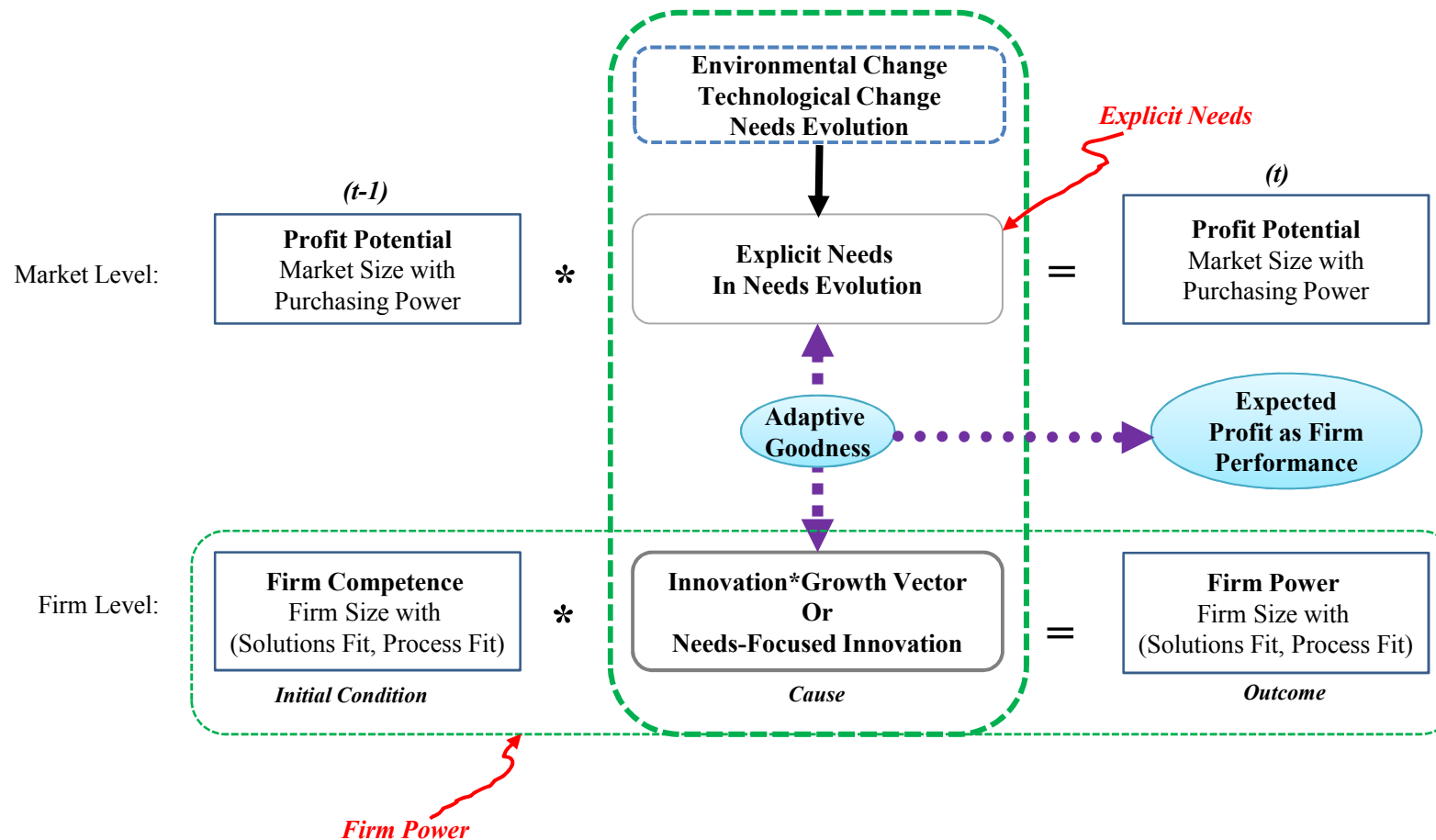
* The better Solutions Fit, the more Expected Revenue comes in and vice versa

The better Process Fit, the lower Expected Cost accrues and vice versa

* Explicit Needs: Needs with willingness to pay (WTP) as well as purchasing power

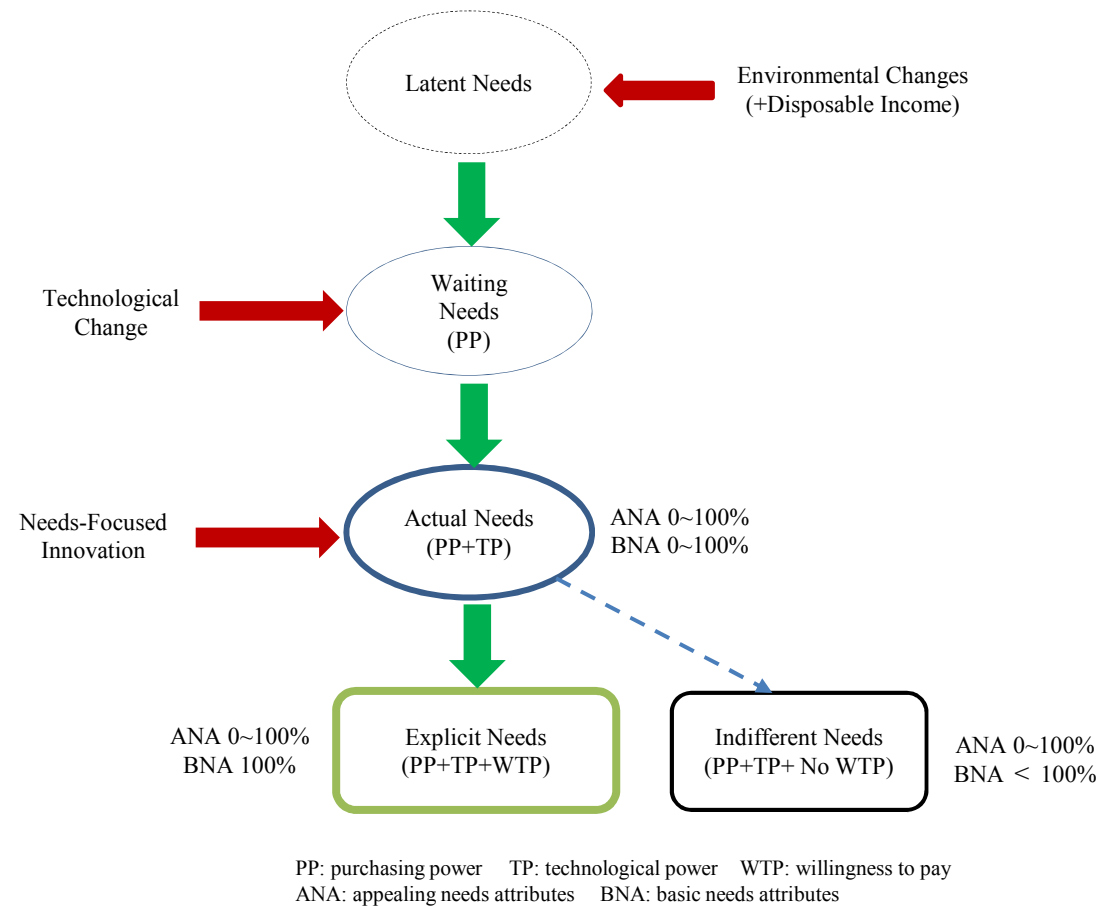
: The only ultimate Source of Revenue

Profit Seeking during a given period of time depends on Explicit Needs in Needs Evolution and Needs-Focused Innovation based on Initial Condition



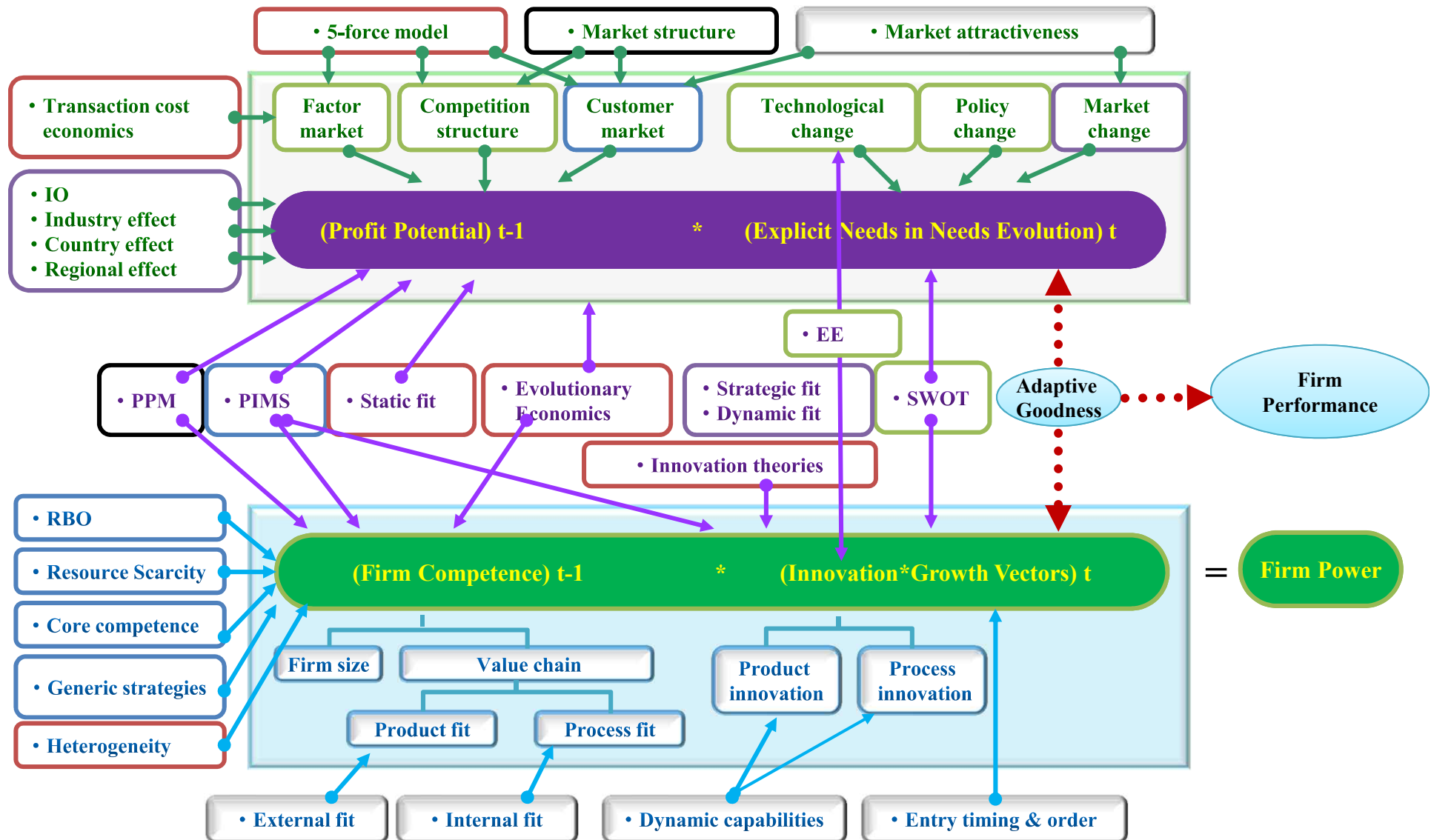
- Profit Seeking Dynamic Model requires Holism, Synthesis, and Dynamism
- It should always deal with explicit needs (source of revenue/profit) and needs-focused innovation (driver of profit seeking) as a component of Firm Power

Latent Needs turns into Waiting, Actual, and Explicit Needs due to Technological Change and Disposable Income Change among Environmental Changes

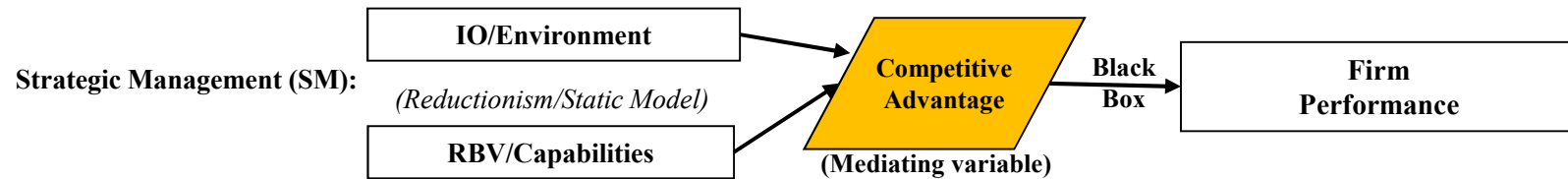
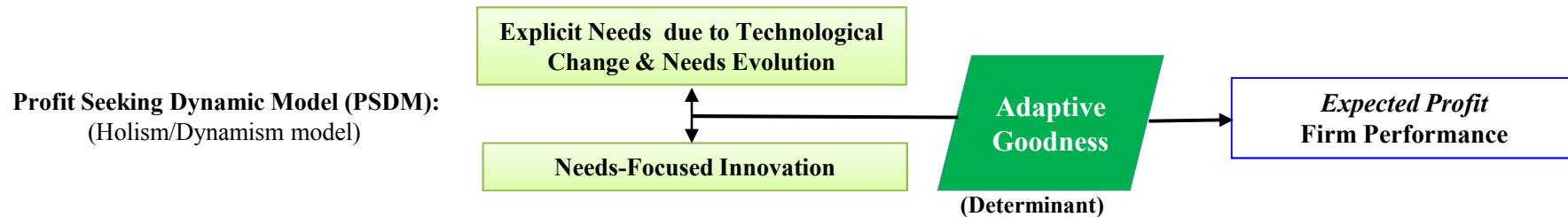
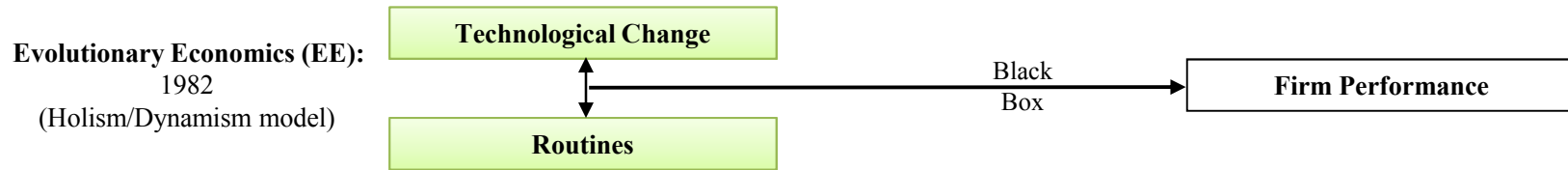


Actual Needs consists of a set of (ANA, BNA) and Explicit Needs forms while ANA is to be met only when BNA is met 100% fully.

Profit Seeking Dynamic Model (Holism) VS the Existent Diverging Models (Reductionism)

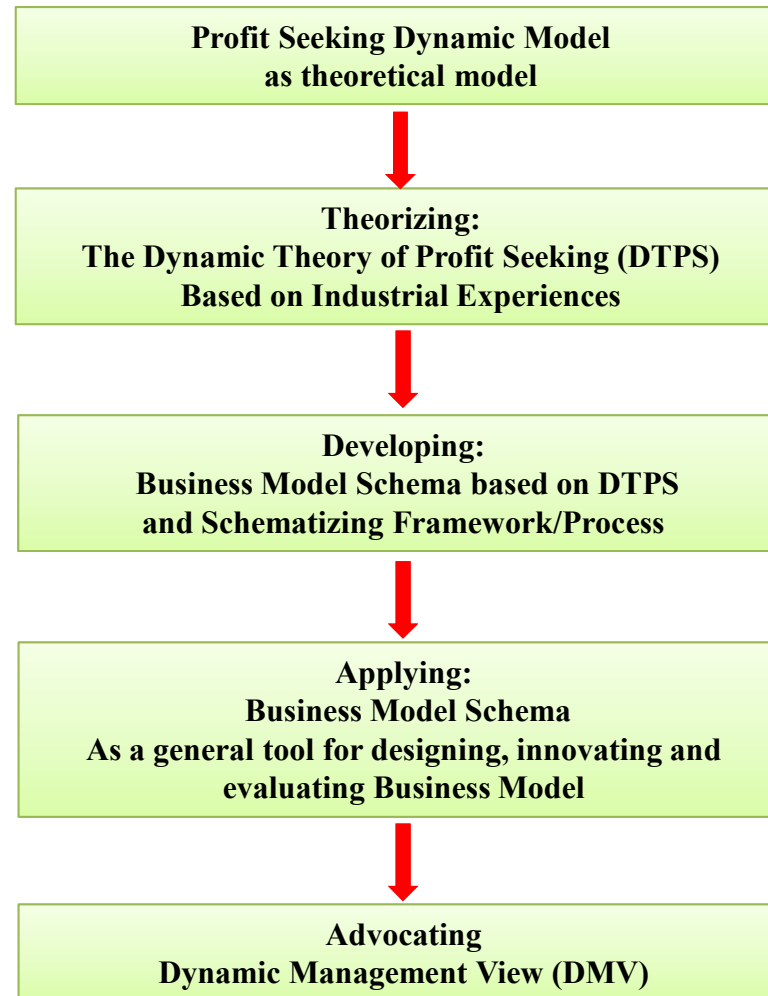


PSDM and EE (Holism/Dynamism) VS the Existent Models including SM (Reductionism/Static)

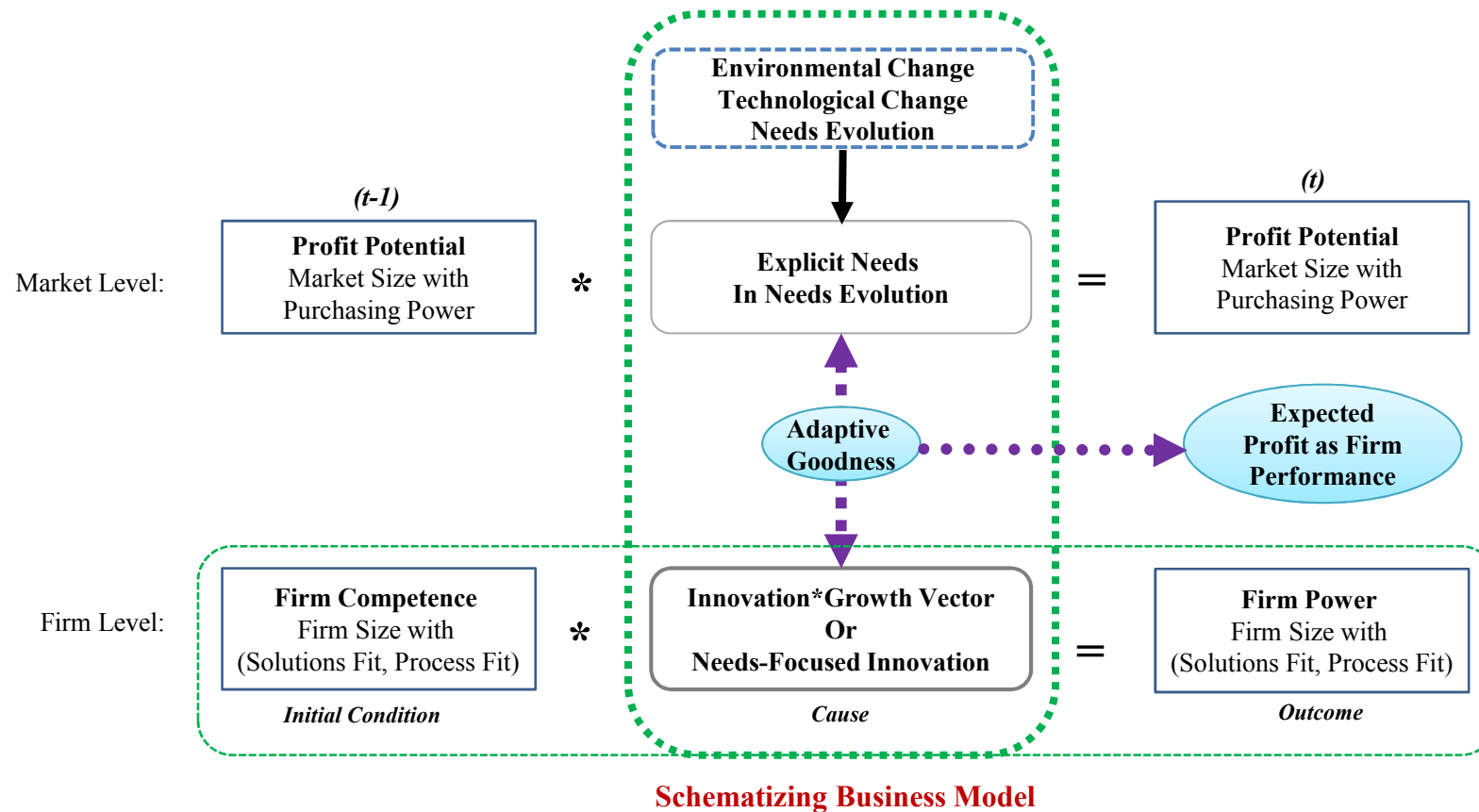


Evolutionary Economics (**Holism**) deals with only the relationship between technological change and routines.
 Profit Seeking Dynamic Model (**Holism**) deals with profit seeking directly through Adaptive Goodness as determinant.
 While Strategic Management (**Reductionism**) treats profit seeking indirectly through Competitive Advantage.

Future Research Agenda

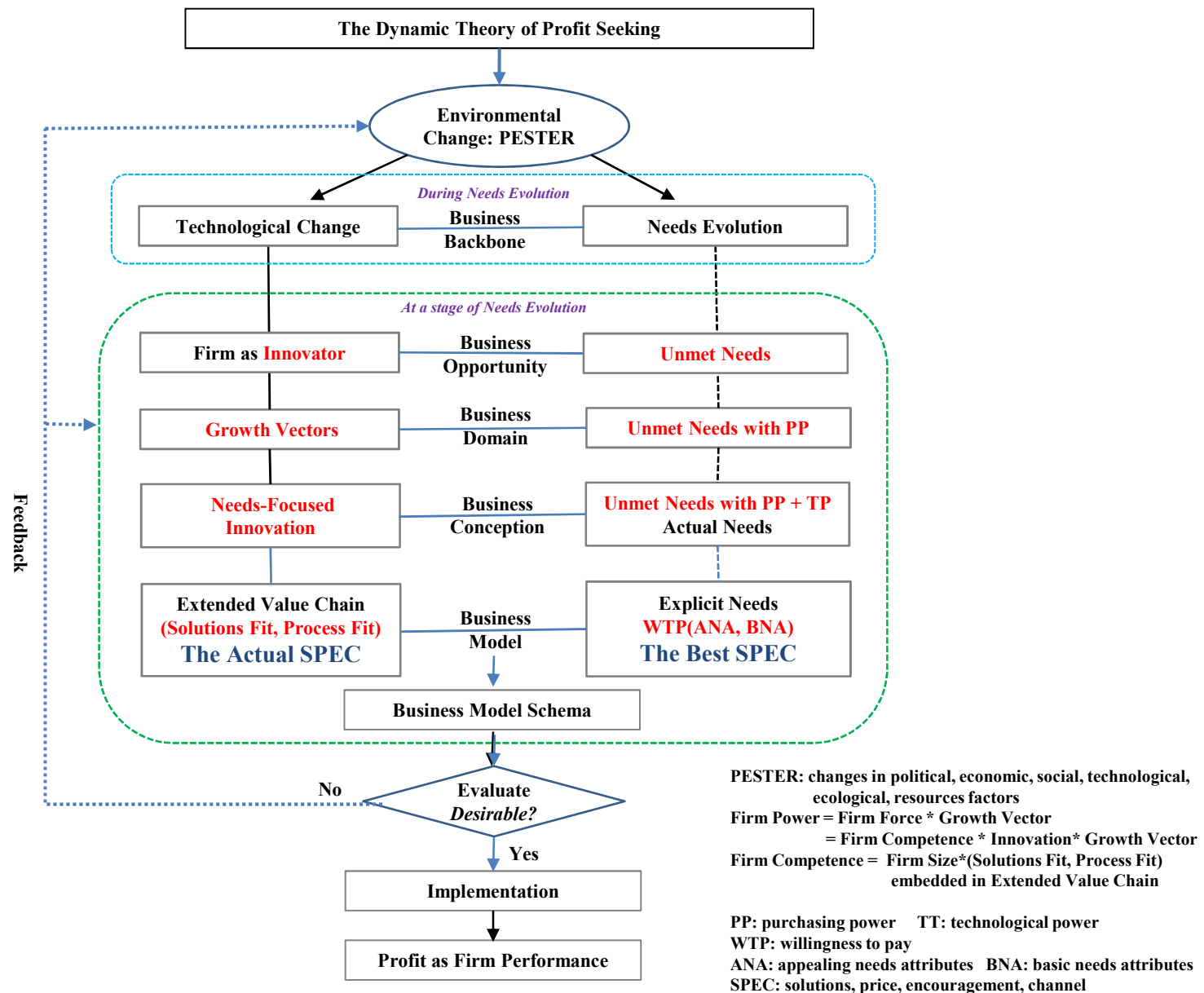


Business Model prevails now, yet brings about lots of Confusion due to lack of theoretical background

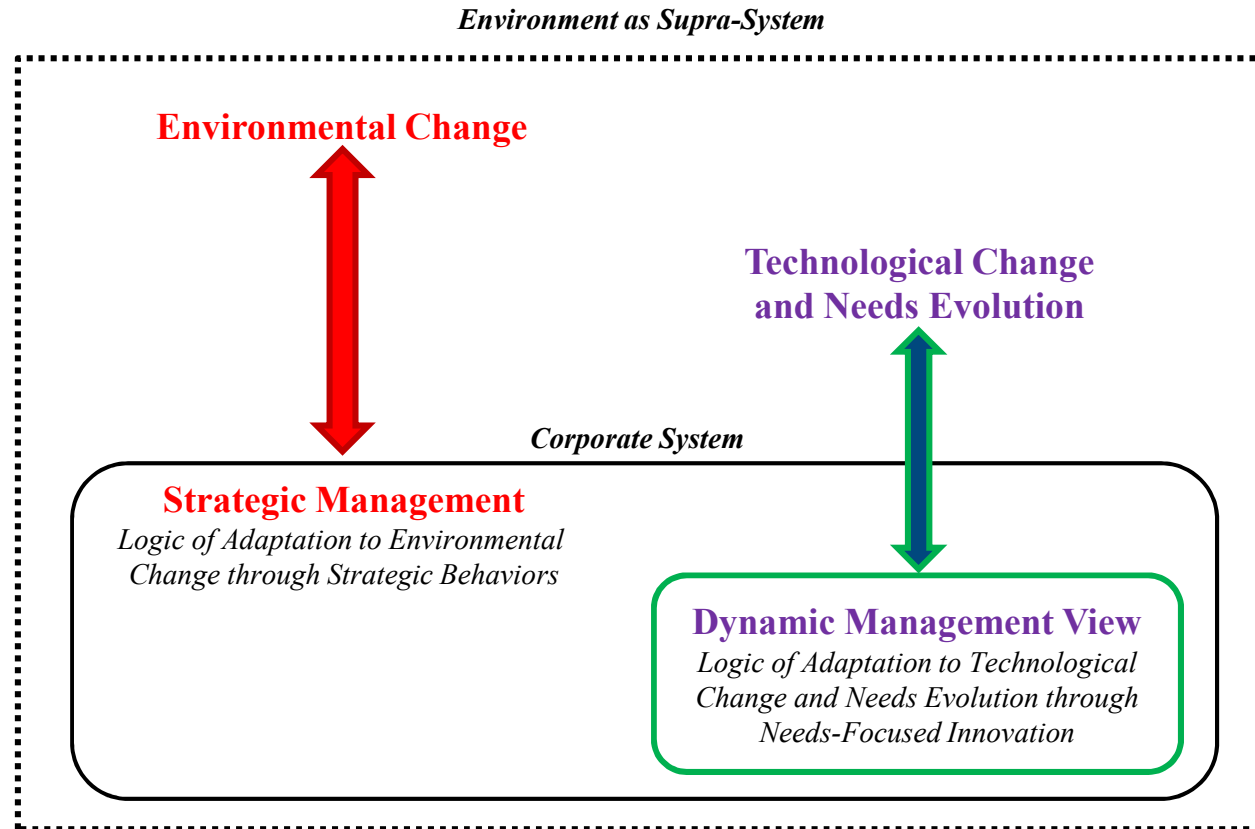


Now theory(model)-backed Business Model, logic of profit seeking, that is, Business Model Schema is badly needed with a string Rationale as a tool for designing, innovating and evaluating business model

Business Model Schematizing may be possible according to Schematizing Process based on the Dynamic Theory of Profit Seeking



Dynamic Management View (DMV) as Subset of Strategic Management



Dynamic Management View (DMV) deals with both explicit needs (source of revenue/profit) and needs-focused innovation (driver of profit seeking) simultaneously in a model. Strategic management stands on Egalitarianism, while DMV emphasizes technological change and needs evolution among environmental changes.

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