

A NEW CHINESE PUBLIC WELFARE OPERATION MODE BASED ON VALUE NETWORK MODEL

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Abstract: Chinese public welfare organizations have some main defects which are backward operation mode and low fund-raising capacity and others. In order to solve these problems, we propose an innovation model based on the value network theory. The model draws on the evolution context which is from the value chain theory to the value network theory, breaks through the traditional public welfare models which are "donate" and "give". We propose a value network model of the Chinese public welfare operation mode and point out two features of public welfare value network — "customer-focused" and "increment of value". Customers "consume" public welfare goods to get economic and psychological benefits, and pay the costs of the public welfare system which is the input of the public welfare value network. Based on the increment of value, it provides resources to the recipients system as the system output. Public welfare organizations achieve the increment of value of system with the means of public welfare operation, as the material basis for the system output. Our research provides a new way to renovate the operation mode of the Chinese public welfare organizations and to improve the ability of fund raising.

1 INTRODUCTION

Chinese public welfare organizations were born in the planned economy era, and they have not been given the environment and duties for market-oriented operation. Even today—the second decade of the 21st century, many new public welfare organizations also have the idea of the planned economy. As the government-affiliated agencies, one of their hands obtains materials from the state and enterprises directly, and the other hand directly sends these materials to people who need help.

Now, the simple public welfare operation mode of "donate" and "give" are facing the enormous impacts of the market and customers, and the impacts are shown as follows. Firstly, the organizations alone can not meet the more and more

diverse interest and demands of customers. Secondly, with more and more public welfare organizations entering the market, the market is more competitive, and the trend of industry division began to appear. Thirdly, the pressure of increasing the value of donated material is increasing. Under the complex market environmental conditions, the maintenance and development of customers and meeting the competition have become common problems faced by public organizations.

2 FROM THE VALUE CHAIN TO THE VALUE NETWORK

In western countries where the market economy is highly developed, public welfare organizations and

enterprises are treated equally, and the director/chairman/president himself of many charitable foundations is also a successful entrepreneur. The operational concepts, organizational structure and management system of the foundation and these of business are exactly the same. This is because that they keenly aware that the operation purposes of public welfare organizations and business are different—the operation purpose of public welfare organizations is to achieve maximum social benefit and that of enterprises is to achieve maximum economic efficiency, but the processes pursued are not different—the competition and integration of social resources. Therefore, public welfare projects and enterprise products are both the manifestations of resources integration. The business operations can also be applied to public welfare organizations. Can we find the answer to solve the problems of public welfare organizations from the company?

2.1 The Value Chain Theory

Value Chain theory was proposed by Michael E. Potter in 1985. He considers that the company's value creation process consists of a number of linked corporate activities which make the raw material into final products, and continuously transfer the value in use to meet customer needs and realize increment of value.

Within 20 years after the value chain theory was brought forward, the theory has been considered as a powerful weapon. The coordination among the internal organization of enterprises, the value chain alliances among enterprises and the evaluation of competitive advantage derived from the value chain theory have become new competitiveness strategy of enterprises

However, because the information technology and other technological rapidly are developing, economic globalization speed up, and market demands change quickly, the survival of enterprises may more and more rely on the innovative capabilities and the external response and coordination.

In the new situation, the value chain theory can not provide the basic framework for modern e-business innovation strategy, and the thought of profit pursuit is more and more difficult to meet the diverse needs of customers. And because of too much attention to their own commercial enterprise, product and market, they easily overlook the role and status in the market collaboration network and they will be marginalized by the market.

2.2 The Value Network Theory

In Adrian Slywotzky's book "profit zone", he proposed the value network theory to accommodate the development and change. In the value network theory, the value of products or services is provided by each network member, and the value created by each member of the network is an integral part of the overall value. The interaction of the value improves the collaboration efficiency and ultimately benefits of the value network. The most important feature in the value network theory is the increment of value in the cooperative system. In addition, one feature of the value network is customer-focused.

When the value network theory was put forth, it quickly replaced the value chain theory, and became the strategic thinking for enterprises in many industries. Under the guidance of the value network theory, companies began to organize other nodes in the industry net with the "customer focused". According to their advantages of labor division, they reconstructed the industrial cooperation system to achieve the increment of value.

3 THE TRADITIONAL PUBLIC WELFARE OPERATION MODE

Known from the above, Chinese public welfare organizations and businesses face the same challenges, which are diverse needs of customers, changes of environment, industry competition, increasing pressure of increment of value. Enterprises began to transfer the thinking from the value chain to the value network. Can public welfare organizations also draw lessons from the value network theory, and get rid of the original simple model of "donate" and "give" to find a new development model?

Figure 1 is the process of enterprises' increment of value. In the figure, A represents the customer's investment which is also the input of the system. Z is the use value which the enterprise alienates to the customer, which is also the repay on the customer's investment. X is the remaining resources after the system operation, and here it is the company's profits—the output of the whole system. The rate of the increment of value is expressed by a leverage ratio B. In addition, the cost of business operation is expressed by Y.

According to figure 1, there is a balance equation:

$$A \cdot B - Z - Y = X \quad (1)$$

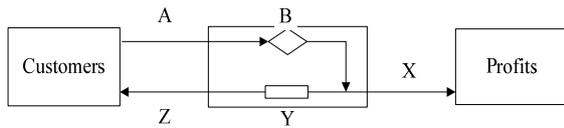


Figure 1: The process of enterprises' increment of value.

In the equation, there are:

- 1) $A > 0$
- 2) $Y > 0$

Assumptions:

- 1) The operation of the enterprise system can increase value, and that is $B > 1$;
- 2) Enterprise achieves the use value alienation of customers, and that is $Z > 0$.

Obviously, figure 1 and equation 1 and its subsidiary assumptions are also applied to public welfare organizations.

Figure 2 is a traditional public welfare operation mode. The only difference with figure 1 is that the output of system becomes a donation from profits, which is due to the different ultimate goal of public welfare organizations and companies. The purpose of enterprises is to achieve the highest income with minimum cost and the output is corporate profits. However, the purpose of public welfare organizations is to achieve the highest social value with minimum cost, and the output will be donated to the recipients.

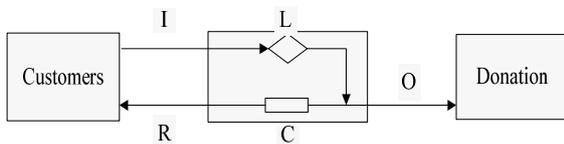


Figure 2: The traditional public welfare operation mode.

There is also a balance equation in figure2:

$$I \cdot L - C - R = O \quad (2)$$

In the equation, I indicates the customers' donations, as well as the input of the system. R is a return that the system provides to customers. O is the resources which can be used to service the recipients of public welfare system after the system operation, and it is the output. Resources can increase value in the system, as a transistor in a circuit system, and it is represented by leverage— L . In addition, the cost of the system operation is represented by C , the same as the resistance of circuit system.

In the equation, there are:

- 1) $I > 0$;
- 2) $L > 1$;
- 3) $R > 0$;

4) There is the scale effect in the operation of public welfare organizations. With the expansion of the scale, the marginal cost reduces. In order to facilitate the discussion here, we assume that C (cost) is a constant and $C > 0$.

In addition, we introduce the economic system hypothesis of "economic man" into the paper. In the hypothesis, we treat people as "economic animals", and we think all actions of human are designed to meet their own interest and people want to pay as little as possible to obtain maximize harvest. In the public welfare system, people pursue economic value and social value at the same time. This means that only if what the customer obtains is not less than what he donates, the donation could take place. In here, the return is not only financial rewards, but also honor and psychological rewards. The equation is as follows.

$$R \geq I \quad (3)$$

The more economic value and social value customers get, the more donation willing the donors have. The economic value and social value given to the customers from the public welfare organization and the donation are positively correlated. The equation is as follows.

$$I = \xi R \quad (\xi \text{ is a constant}) \quad (4)$$

From the equation 2, 3, 4, we can get:

$$O = R(\xi L - 1) - C \quad (5)$$

In the equation, C , ξ are constants, and $C > 0$.

Because the goal of public welfare organizations is maximize social value which is max O . From the equation 5, there is:

$$\max O = f(\max R, \max L) \quad (6)$$

R represents the return of donors from public welfare organizations. L represents the leverage of public welfare which is the maximize value of system input resources. In new economic situation, traditional public welfare industrial chain can not last long, because it can not meet the requirements of the formula 6. The value network theory is the best way to implement the formula 6.

4 PUBLIC WELFARE VALUE NETWORK

David Bouvet describes the value network management model as a co-ring structure consisting of customers, businesses, suppliers and manufacturers. Wu Haiping introduces the value network theory into the upgrading of the enterprise value chain, and proposes a dynamic competitive

enterprise value network model. Jiang Zhenjian introduces the value network theory into construction industry, and proposes a supply chain collaboration model based on value network of construction enterprises. Zhao Xuefeng, Dong Shuang and Li Dianwei introduce environment structure of value network into telecommunication service industry. Zhao Xuefeng proposes the collaborative innovation partner selection theory of telecommunication products based on value network theory. Dong Shuang and Li Dianwei propose the innovation mode of operation theory of the telecommunication industry. We introduce the ring model into public welfare industry, and change it to build the value network model of public welfare operation mode. The model is shown as figure 3.

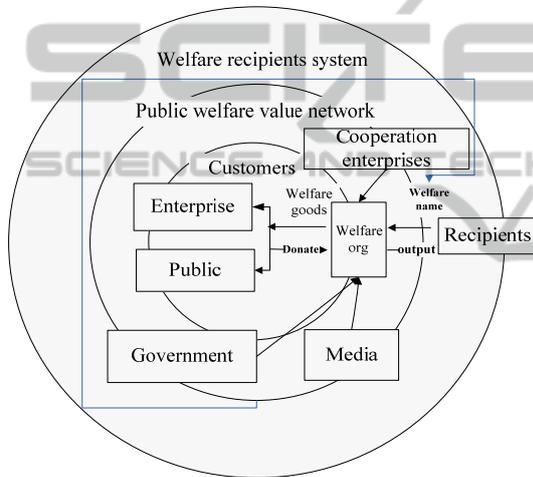


Figure 3: The value network model of public welfare operation mode.

There are two important points in the mode.

1) Customer-focused. Customers "consume" public welfare goods to get economic and psychological benefits, and pay the costs of the public welfare system which is the input of the public welfare value network.

2) Based on the increment of value, it provides resources to the recipients system as the system output. Public welfare organizations achieve the increment of value of system with the means of public welfare operation, as the material basis for the system output.

According to the formula 7 and figure 3, in order to achieve the maximization of R , public welfare organizations should establish a thinking of customer-focused, and provide both moral and material reward, which must be greater than or equal to the customers' donation amount. The more return customers get, the more donation willing they have.

In the actual operation of public welfare projects, public welfare organizations must provide two aspects of both material and spirit rewards. On the one hand, they should strive to improve public confidence and information transparency of public welfare organizations, and mine moving and typical stories to increase the power of spirit. On the other hand, by the name of public welfare, they should integrate social resources with low or even zero-idle costs, and then package and classify these resources to give to the customers as feedback.

In order to achieve the maximization of L , public welfare organizations should strive to achieve the increment of value of goods donated by customers. This increment of value is different from the capital operation and financial operation in financial sense. The goal of the increment of value in public welfare is to achieve a higher integration level of social resources by the operation of public welfare way than commercial operations. Specific operation is to change commercial products into public welfare products, and to make customers participate in the commerce and public welfare process at the same time, during which there is no additional burden or economic costs for these customers and no changes in the existing deal flow. Public welfare industrial and commercial products are seamlessly combined.

Take the project—"Love orchard action for helping handicapped" launched by Beijing Foundation for Disabled Persons as an example. The project is a public welfare projects based on public welfare operation value network model. The project called on people to adopt fruit trees and participate in actions for helping handicapped.

In the aspect of customers' return, the fruits from trees adopted by one are also owned to him. The Foundation will also provide exquisite packaging of fruits, in which there are practical art works made by handicapped and theatrical performance tickets, etc. Customers have received material rewards which are higher than the donation. At the same time, the orchard also has arranged for the employment of handicapped. The caring people and handicapped could interact when picking fruits, and help them integrating into society. The project enhanced the actions' transparency and credibility, return customers spiritual reward. In the aspect of increment of value, using leverage of customers' donation, the Foundation brought the media, cooperative enterprises, caring people, caring agencies and government along. Through the interaction of resources, a stable, open and huge cooperation system formed, and the increment of value is large.

5 CONCLUSIONS

The traditional public welfare operation mode—"donate" and "give" can not resolve the problem of the return for customers and increment of value, and the mode faces huge impact from the market and customers. However, the public welfare operation value network model can solve the both problems, and provide a new way of operation mode and resource development mode for public welfare organizations.

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