

# Chapter 4

## Business Models: Analysis of Its Conceptual and Theoretical Development

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### ABSTRACT

*The objective of this chapter is threefold: (a) assessing the development of the business model (BM) concept, pointing out efforts scholars have made to close eventual inconsistencies; (b) analyzing those shortcomings implications to the concept understanding; and (c) raising convergent themes around which future studies can be built to bring cohesion to the field. The chapter reviews BM research over the last 20 years. It indicates that BM literature still displays a discrepant use of the concept, and that divergence still constitutes an obstacle to common language development and integrated research efforts concerning BM structure and management. However, instead of justifying those gaps in literature relative newness, research and future applications can strengthen convergent themes to move forward. Four themes are identified: BM as a cognitive representation, a value reference frame, a business dynamic tool, and a two-sided view of strategy.*

### BACKGROUND

Strategy literature has given increasing attention to business models (BM hereafter, both for plural and singular form). Initially considered as a synonym for the business plan or strategy itself, BM are viewed today as a distinct concept with both theoretical and empirical relevance.

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The origin of the BM term is unprecise. Some situate its beginning in the late 50's with the studies of Bellman, Clark, Craft, Malcom and Ricciardi (1957) about business games building in which the BM is interpreted as a reality simulation (Baden-Fuller & Morgan, 2010; Osterwalder, Pigneur & Tucci, 2005; Wirtz, Pistoia, Ullrich & Göttel, 2016). However, though the concept might exist for over fifty years, it received practitioners' attention with Internet advent in the late 90's when questions about value creation in e-business started to rise (Teece, 2010; Casadesus-Masanell & Ricart, 2007; Wirtz et al., 2016). At that time, entrepreneurs in search of funding were asked to demonstrate their idea's validity even before its operation and profit generation (Magretta, 2002). Thus, the function of the model was presenting a business and its value creation logic (Chesbrough & Rosenbloom, 2002; Moyon & Lecoq, 2013).

Beyond practitioners' field, the BM concept has made its way through the scientific community and received several critiques. One of them came from Porter (2001) who viewed the BM as a concept with vague definition and faulty reasoning. Thus, from 2002 on, BM research increased efforts to clarify and demonstrate the concept's relevance (Wirtz et al., 2016; Baden-Fuller & Morgan, 2010; Da Silva & Trkman, 2013). However, those efforts have involved different research fields, such as organizational theory, strategic management, and information technology (Wirtz et al., 2016). Although the multiple approach is welcome, rich, and embraces different dimensions of the BM idea, it also leads to conceptual dispersion.

As Lecocq, Demil and Ventura (2010) states, five phases summarize BM literature development:

1. BM emergence among practitioners
2. Attempts to come up with a BM definition
3. Empirical researches
4. BM core components configuration
5. Attempts to determine BM intellectual roots

It is important to note that literature development is not necessarily linear. The phases overlap, since one's emergence may not follow another's completion. Besides, literature gaps may be attributed to BM as a relative new concept. Therefore, BM is an issue with unanswered questions, and hence there is still room to deepen the understanding about its potential contributions and applications.

However, despite efforts from business community towards the concept in the last 20 years, the literature still displays conflicting views about fundamental issues (Wirtz et al., 2016; Massa, Afuah & Tucci, 2017). Two of them stands out: concept definition and intellectual foundation. The first one indicates that the BM does not have a widely-accepted definition. Therefore, in spite of its relevance, there is still no agreement on its meaning. Likewise, the second shortcoming points out the lack of consensus concerning the theoretical base that supports the BM concept. This chapter argues, though, that full consensus or consolidation is not required – or possible – to field advancement, but it brings cohesion to BM concept application from both practitioner and academic point of view.

There are many review articles which analyze previous research, establish a common ground among them, and make new conceptual and theoretical propositions (Shafer, Smith & Linder, 2005; Wirtz et al., 2016; Zott & Amit, 2013). However, regardless of research agendas both gaps persist. Two articles written in different phases of the literature support that claim. The article from Morris, Schindehutte and Allen, published in 2005 – but written in 2002 – concludes that the BM theoretical foundation received little attention and, consequently, did not progress. Concerning the concept definition, the authors argue that conceptual divergence challenges BM understanding. On the other hand, fifteen years and several articles later, Massa et al. (2017) still highlight similar observations. As they state, from 2012 to 2017,

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