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A Critical Review of the Business Model related Literature Universe

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Abstract

The study attempts to undertake a thorough analysis of the literature universe within the realm of business model related research. The study takes an inductive approach and draws on a series of conversation with industry practitioners, ground observations, and other sources before forming up a roadmap to undertake the critical literature review. The review commences with acknowledging the limitation of any attempt to understand the true working dynamics of a business model. The review subsequently uncovered three main branches of underlying business model related enquires - attribute driven, cognitive schema driven, and conceptual framework based. Following that, the review reveals a handful of research deficiencies and gaps within the field. A comparison between the field of business model and that of business strategy followed suit. Subsequently, the fuzziness of what exactly defines a business model was reviewed. This eventually led to the emergence of three common attributes that broadly define a business model. Moving on, the common rationales and benefits from a typical business model related research were reviewed – predominantly from the perspective of how it would enhance market resource allocation efficiency. The literature review eventually concluded that a robustly developed questioning framework should be useful for stakeholders during business model related research.

Keywords: Business model, business strategy, sector analysis, stakeholder analysis.

Any attempt to understand the real essence of a business model is at its very best a process of "blind men touching an elephant". This is particularly more so for investors who do not possess any working experience within the specific industries.

Even among corporate insiders, their familiarity will be restricted (Johnson 2010) to the usual spectrum of activities that they are dealing with daily in their professional career. For instance, a CEO may have a very clear picture of what are driving the revenue and cost of a business. But the same cannot be said of his or her familiarity with the emerging challenges in manufacturing. At the other end of the hierarchy, a production engineer may have a clear understanding of the upcoming challenges from the next generation of technology that a small competitor has recently adopted. But when it comes to the actual impact of this challenge on the company overall strategy and industry competitive landscape, his call may be as good as any man on-the-street.

The above examples are people that know their stuffs. For relatively complex industries such as banking, offshore marine and pharmaceutical, it would be next-to-impossible for any individual to fully comprehend (Stefan & Richard 2014) the dynamics of how each industry works and more importantly how things are going to evolve within the next six months. Even for two individuals working in the same department, they may have different interpretation (Nersessian 2008) of the company's business model imprinted onto their minds.

Due to the above constraints, the scope of focus of business model related research tends to vary a lot and can be highly dependent on the researcher's personality bias and breadth of professional experience.

One branch of business model research focuses exclusively on the key attributes (Chesbrough 2007a) that elevate or bring down a business, depending on the variation in environmental conditions. This type of research is targeted at industry practitioners (IBM 2006) and business consultants whose motivations are relatively direct and tangible – executable steps (Markides 2013) to improve an existing business in the shortest possible time frame. This group of readers is keen (Johnson *et al*. 2008) on understanding the embedded causality relationships and how to extrapolate them onto real-life situations.

Another branch of business model research examines business models as just another cognitive schema (Klang, *et al* 2014). This branch of research tends to target academia and organisational behavior enthusiasts who are keen to understand how to embed established theories from other disciplines (linguistics, psychology, and sociology) to explain real-life phenomenon happening in the business world (Chesbrough & Rosenbloom 2002). This group of researchers attempts to uncover a near “holy grail” version of a business model framework that can make sense (Teece 2007) of what had already happened and to a certain extent predict what will happen during most scenarios.

A third branch of business model research focuses on exploring business model as a conceptual framework to paint up a holistic picture of how a company thrives within an ecosystem (Massa & Tucci 2014). Consumers of such research includes C-suite level practitioners (Cennamo & Santalo 2013) and academia that are adept at using the inductive approach. This group of readers tends to look at the bigger picture of things (Choudary 2015), focuses on mega trend and usually not particularly concerns about specific causality relationships.

Very few research papers have attempted to link up different frames of reference to project an objective view of the industry’s current situation. In other words, it has been relatively common for a research paper to be skewed in one direction and with it the potentially biased conclusions (Gentzkow, Shapiro & Stone 2014). On top of that, Teece (2010) has observed that business model related research ought to be interdisciplinary, and with it the need to gather insights and knowledge across a wide spectrum of subject domains. That by itself has been an extremely tough endeavor that indirectly renders business models to be frequently mentioned during research but rarely analysed in detail.

In addition, Lambert (2015) observes that scant attention has been paid to investigate the robustness of business model classification. On top of that, Olten & Bonn (2013) states that little consideration has been made to validate the suitability of the classification framework. All these serve as big obstacles towards theorising business model related research.

Finally, Markides (2015) argues there is much overlap between the concept of business model and business strategy. Conventional business strategy researchers do not regard business model as a new field (Porter 2001) and their argument lies on the fact that both business strategy and business model have attempted to pinpoint where economic value gets created, how to create value as well as offering executable advice to achieve them. And in doing so, both schools of thought have focused on dealing with competition

(Zott & Amit 2010) which again highlighted their similarity. Researchers therefore ought to accept the fact that both business model and business strategy do indeed possess significant intellectual territory overlap.

Across the other side of the fence, some researchers focus on researching the subtle differences between the two (Massa, Tucci & Afuah 2016). Business strategy focuses predominantly on the supply side of the equation (Priem, Butler & Li 2013) and looks at ways to improve the inner workings of a company to capture economic value. Business model analysis on the other hand looks at both demand and supply sides (Zott & Amit 2008) to explore ways of influencing the ecosystem in which the company thrives within also to capture economic value.

In other words, business strategy research has been more concerned on value already captured as well as how to sustain them through tweaking the variables within the company's internal sphere of control. Business model research however looks at value creation at the forefront as well as adopting a multiple stakeholder approach in addition to tweaking the variables within a company's internal sphere of control.

Most importantly, before commencing on any business model research, researchers must firm up a definition of what is to be included under the scope of the business model research so that the scope of research will not become unduly broad and therefore unmanageable (Massa, Tucci & Afuah 2016).

The definition of business model comes in a wide variety of fashion (Tomkus 2014). Some papers (Osterwalder, Pigneur & Tucci 2005) adopt a functional approach and define business model as interdependent entities consolidating to generate and deliver value to end users. Others such as (Masanell & Ricart 2009) and (Teece 2010) utilise a conceptual approach where they define business model to reflect the firm realised strategy. Brouthers & Brouthers (2003) defines business model as the overarching feature that commands overwhelming influence on transaction costs, risk, and trust among business stakeholders in a company.

Most inquires adopt a monetary approach to the definition of business models. For instance, Afuah (2003) regards business model as a framework to make money for shareholders through undertaking activities that generate benefits for customers. Mullins & Komisar (2009) views business model as a series of economic activity where the movement of cash across multiple stakeholders within an ecosystem determines the profit viability of the company. Debelak

(2006) defines business model as an instrument for company to generate dollars and cents.

Among these definitions, three attributes consistently emerge:

1. Business models thrive in an ecosystem of multiple stakeholders striving to appropriate a portion of the value-add for themselves.

2. Business model integrates various functions of a company towards a common objective: generating utility[1] for the shareholders.

3. Business model provides a big picture for decision maker and is therefore closely related to strategic management.

These three common attributes make up the guiding principles of what is to be included and/or excluded within the scope of a business model related research. Having arrived at a more concrete understanding of what truly constitutes a company's business model, the next step naturally progresses to explore the rationale behind studying business models. What value-add does a business model analysis provide for corporate insiders, institutional investors, retail investors and regulators?

The business model pulls together (Gould & *et al.* 2013) most of the moving parts of a business while at the same time enabling relevant stakeholders to understand the degree of entanglement among these entities. These have important implications for both insiders (C-suite level executives and other senior management) and outsiders (investors and regulators).

For insiders, they will better appreciate the ramifications and consequences of pushing certain "buttons" (Masanell & Ricart 2009) during strategy formation and tactical operations. The benefit gained at this level (Cognizant 2012) will be useful for business operators but at the same time beyond the remit of this literature review.

This literature review focuses on uncovering the benefits from the perspective of market resource allocation efficiency (Basceanu 2014). That is where most stakeholders stand to gain after having obtained clearer understanding of a company business model. In other words, this literature review looks at the merits of business model analysis from its beneficial impact on improving capital allocation efficiency (Zott & Amit 2013) within the economy.

[1] *Utility may not be on monetary terms in the case of non-for-profit organizations.*

Ideally, any investor would have been better off after having obtained a clearer understanding (Weill & *et al.* 2005) of their target company's business model. At the minimum, investors can at least estimate with reasonable amount of accuracy the likely impact (Chesbrough 2010) that a change in certain macro-economic variable, government policy or demographics is going to have on the future profitability of the target company.

Investors can also appreciate better other relevant risk factors (Linder & Cantrell 2000) of the industry. From this perspective, the knowledge of business model has tangible value add (Magretta 2002) during investment decision making.

However, no one, not even insiders who have worked for decades within an industry can obtain a crystal-clear understanding of their company's business model (Osterwalder & *et al.* 2002). The remaining question is therefore, to what degree should investors as outsider undertake analysis on a company business model to enhance their reward-to-effort ratio.

Teece (2010) argues that for a business model to possess sustainable competitive advantage, it must be beyond that of having an efficient and logical way of doing business[2]. There must have been some aspects of non-replicability in the business model. Such examples may be special relationships[3] between the company and its existing customers and key partners that are highly undesirable for competitors to imitate. Another example may be on-the-ground executional experience that cannot be narrated in words and shared with non-participant.

Considering that, a set of toolkits that is capable of guiding users to question the core rationale (Teece 2010) of how a business model can sustain its competitive advantage should be useful. At the minimum, through asking a series of appropriate questions within suitable contexts, aspiring readers will probably be led to more relevant questions which should enable them to navigate closer towards the unique characteristics of their target companies.

[2] *This alone is highly replicable by industrious competitors.*
[3] *Usually, the intricacies of such relationships can be explained via game theory.*

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