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The Interaction Between Business Models and Business Reality

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Abstract

Purpose: The aim of this paper is to conceptualize the connection between business model and business reality. On this basis, the paper aims to put the business model on a solid conceptual basis and to build bridges to its neighbouring concepts. In this way, this paper should to contribute to more terminological and conceptual rigor of the business model construct. In addition, this paper aims to conceptualize the processes of constructing and using business models for decision-making.

Design/Methodology/Approach: This is a conceptual paper; it introduces and specifies a new construct, the status quo, as real-world counterpart to the business model. Based on this, it develops a model of the interaction between business model and status quo.

Findings: The key finding of this paper is that business model and status quo are shaped (and need to be described) by different characteristics. The characteristics of the status quo result from repetition (stability) and routinization (efficiency, low resistance, etc.). The characteristics of the business model result from observation, abstraction and simplification (purpose, observer perspective, etc.).

Originality/Value: This is the first paper to develop the status quo as an independent construct for management research. It also offers the first comprehensive model of the relation between business model and business reality. Based on that, it allows establishing new connections between the business model concept and the theory of the firm, particularly with regard to innovation and routine.

Keywords: business model; status quo; inertia; innovation; routine; theory of the firm

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Introduction

In their seminal review, Zott, Amit and Massa (2011) show that there is a rich body of research on the business model construct[1], offering a variety of insights and demonstrating the explanatory power of the concept. However, in the same paper the authors conclude: 'the business model remains a theoretically underdeveloped (and sometimes overloaded) concept, which may raise doubts concerning its usefulness for empirical research and theory building. Future research on business models should seek to overcome these limitations.' (ibid.: 1038). Much has happened since; however, not all theoretical shortcomings could be overcome by research (Jensen, 2013; Fielt, 2013; DaSilva and Trkman, 2014; Wirtz, Pistoia, Ullrich and Göttel, 2016b; Foss and Saebi, 2018). One remaining theoretical problem is the relation between business model and business reality.[2]

Let me illustrate this problem with the example of Amazon. For quite some while, there has been an intense discussion in Germany about whether the business model of Amazon is that of a logistics company or that of a retailer (ver.di, 2019). This question was of particular interest for the involved participants, because if Amazon is a retailer, it has to pay significantly higher wages due to different collective agreements. However, the theoretical key point behind this discussion is that both parties are right to a certain extent. There are good arguments for either position and no side could prevail so far. Similar observations can be made in expert interviews or teaching exercises on business models: People have a different perspective on the business model of the same firm—most likely they have different information, but they also interpret their information in different ways. But what does this mean? What is the business model of the firm? Is it the interpretations of individuals, so that, as a consequence, the same firm can have two or more mutually exclusive business models at the same time? Or is the business model the reality behind the interpretation? But what is this reality? Retailer or logistics company? How can we make assertions about this and what is the epistemological status of such assertions?

This lack of clarity points to a more fundamental underlying conceptual problem: in fact, the business model does not denote one, but two different constructs at the same time. On the one hand (reality level), the business model denotes attributes of real firms, 'how a company makes money' (Birkinshaw and Goddard, 2009: 81). Chesbrough (2007: 12, emphasis added), for instance, states: 'Every company *has* a business model, whether they articulate it or not.' On the other hand (abstraction level), the business model denotes the conceptual representation of the business reality (Massa, Tucci and Afuah, 2017). Osterwalder, pegnuer and Tucci (2005: 3), for instance, specify the business model as 'a conceptual tool containing a set of objects, concepts and their relationships'.

This confusion has been recognized and discussed before (DaSilva and Trkman 2014; Baden-Fuller and Morgan 2010), but it has never been cleared up. Different levels of abstraction have been distinguished (Osterwalder, 2004; Massa et al. 2017; Jensen, 2013; Taran and Broer, 2017). However, these different levels are hardly related to each other and mostly exist side by side. There is no holistic model that conceptualizes the interaction between business model and business reality. As a consequence, the use of the business model term is often erratic, oscillating somewhere between the different meanings; in the words of Foss and Saebi (2018: 9), 'BM and BMI [business model innovation] constructs are used in multiple explanatory contexts.' Or as Jensen (2013) has put it: 'much of the discussion and confusion is

[1] The two terms, concept and construct, are closely related. Both denote phenomena that are thought as a semantic unit, becoming part of a thought or a theory. Concept, consisting of the Latin prefix "con" and the verb "capere" (taking, grasping) is more focusing on its theoretical function, whereas construct, which is borrowed from the Latin word "construere" (erect, build), is more focusing on its mental nature. In the text, I use both terms as characterizations, either pointing to the theoretical (concept) or the cognitive (construct) dimension of the respective term.

[2] The notion of reality is strongly loaded in the philosophical discussion. One key challenge is that there is no valid inference, leading from subjective impressions to evident statements about the nature of matters (Popper, 1959; Caldwell, 1982). It is not even uncontroversial if there is one reality at all and inasmuch reality itself is (socially) constructed (Lawson, 2016). However, the use of the term reality in this article is broad, pointing to the existence of firm activity as the subject of model construction.

due to lack of clarity of more fundamental aspects in the different applications of the concept.'

What is the problem? Wittgenstein (1921) already noted that many philosophical problems have their origin in an imprecise use of language. In this line of thought, terminological, conceptual and methodological rigor became key principles of research. Assigning two or more substantially different meanings to one and the same term fundamentally violates these principles, leading to confusion and unproductive discussions. One example of this is the ongoing dispute about the relation between business models and strategy, with some researchers understanding business models as part of strategy itself and others as its consequence and manifestation (Teece, 2010, 2018; Massa et al., 2017; Casadesus-Masanell and Ricart, 2010; Zott and Amit, 2008). Both positions are contradictory and correct at the same time (depending on the grounding concept of business model). Similar confusions can be diagnosed for other aspects of business models, including cognition, routine, innovation and many more. At all these points, the missing distinction between the abstraction and reality level is impeding the progress of business model research. This is very much in line with the critical conclusion by Foss and Saebi (2018: 9): 'We argue that the lack of cumulativeness stems from lack of construct clarity (i.e., BM and BMI are seldom defined with much precision) and lack of agreement on definitions'.

This conceptual confusion can only be cleared up by the conceptual distinction of two independent constructs, one denoting the reality level and the other one the abstraction level. Moreover, without such a distinction it is impossible to conceptualize the complex interaction between abstraction and reality, how business models are constructed in order to capture firm reality, how this impacts strategy and how strategy again impacts firm reality.

The main aim of this article is to introduce the concept of the *status quo of the firm* as real-world counterpart to the business model. The status quo of the firm specifies how a firm pursues its business at a certain point in time (without any substantial changes). The construct has a long history and an outstanding meaning for almost all dynamic theories, beginning with Schumpeter's theory of innovation, and leading to more recent research like the distinction of exploitation and exploration and the specification of dynamic capabilities. However, the status quo has barely been a subject of reflections itself and most researchers are not familiar with it. For this reason, the status quo concept is carefully presented in section 2. The emphasis here is on persistence as key characteristic of the status quo and its relevance for firm behaviour, particularly with regard to innovation. Following, an overview of research insights in relation to that is given. In section 3, I will argue that the very conception of the BM stipulates that a business model is an abstract representation of a certain status quo of a firm. Based on this conceptual positioning, I will then introduce a model of the interaction between business model and status quo. This interaction model provides a conceptual ground for the clarification of the attributes of its key constructs, business model and status quo. It will be outlined how the business model is shaped by the construction process and the status quo by repetition. Interaction mechanisms will be identified and mapped. The discussion in section 4 then outlines the consequences of the interaction model and key contributions of this paper: a far-reaching terminological and conceptual clarification; a new perspective on the interaction between business model and business reality; and the establishment of new bridges, linking business model research with the theory of the firm.

The Status Quo of the Firm—What and Why

As a starting point, and in order to get a deeper understanding of its structure, it needs to be pointed out that the concept of the status quo does not have any distinct meaning for the neoclassical theory of the firm. As is well known, the theory of the firm was originally an economic domain that has been shaped by the principles of neoclassical economics from the later 19th century onwards (Blaug, 1992). In neoclassical economics, the key principle of the explanation of firm behavior is rational decision making (Hausman, 1992; Samuelson, 1983). Because of this, firms have been seen as perfectly flexible in that they always immediately react to context changes in an optimal way. In this sense, there is no distinction between continuation and change. Continuation is just an identical outcome of repeated decisions happening incidentally. The status quo has therefore no distinct meaning for the neoclassical theory of the firm whatsoever.

This changes latest in 1912 with the publication of the Theory of Economic Development by Schumpeter (1934). In this theory, the status quo is represented by the circular flow of the economy, as described as general economic equilibrium by Walras (Samuelson, 1951). Schumpeter challenges Walras by claiming that there is no tendency of the circular flow to change from the inside, i.e. for inherent economic reasons; it stays unchanged as long as it is not disturbed by external shocks.

For the context of this study, it is particularly relevant for the status quo to not only remain unchanged, but to tend to persist so that it requires an extraordinary effort to change it. This is in sharp contrast to neoclassic economics, challenging their concept of flexibility. In this sense, Schumpeter (1934) conceptualizes innovation not as a simple change, but a break with the existing status quo. He puts forward three reasons why such a break is particularly challenging: First uncertainty, not only with regard to the outcome, but also to the process, the right way to carry out the innovation. Secondly resistance, introduced by Schumpeter already as a mixture of rational reason and psychological aversion against change. Later (Schumpeter, 1942), he even describes resistance as a broader, societal phenomenon. Thirdly capital needs; Schumpeter already describes the challenges of new venture financing. He argues that innovation raises the only systematic need for capital that is inherent to economic activity. These challenges all lead to the persistence of the status quo.

This persistence of the status quo makes it difficult to carry out innovations successfully; it therefore requires a distinct personality to do so – the entrepreneur. Schumpeter expends a lot of effort to specify the entrepreneurial personality, grounding it in contemporary elite theories. Later, he focuses on the entrepreneurial function (Schumpeter, 1939). Yet the focus has always been on the specific challenges that entrepreneurs have to overcome in order to change the status quo.

On the level of national economies, seminal changes of the status quo cause turbulence, business cycles, and lead to creative destruction (Schumpeter, 1942). The key in Schumpeter is that change is not just the choice of a different solution like in neoclassical theory, but a phenomenon on its own, following a different logic and requiring different theoretical explanations than the continuation of a given status quo. The status quo becomes a reference point for innovation; innovation is determined by the persistence and the specific characteristics of the status quo. This understanding is essential to the Schumpeterian theory of innovation. This paradigmatic incommensurability is the key difficulty for neoclassical economists to integrate Schumpeter in their theoretical understanding.

After Schumpeter, this perspective has been supported and further developed by a number of different research streams. These research streams have substantially advanced the theoretical understanding of the status quo. However, they also build on the distinct characteristics of the status quo and much of this research would be pointless without this. To give one example: Research on dynamic capabilities offers an investigation of the firm's ability to adapt to context changes. "Dynamic capabilities thus reflect an organization's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions." (Teece, Pisano and Shuen, 1997: 516). This research challenges the Schumpeterian dictum of the entrepreneurial personality as key driver of innovations and poses that resources can change conditions significantly. However, the focus here is again on the specific challenges to overcome the status quo and how to address them; if these challenges did not exist, firms would need no specific dynamic capabilities (like they do not need dynamic capabilities when they continue their business unchanged) and the entire research would be pointless.

Table 1 gives an overview of the most important theories and research streams and their relation to the status quo in different ways. This relation is specified and key insights with regard to the status quo are listed.

Table 1.

Research stream	Relation to status quo	Key insights on the status quo
Organizational inertia (Henderson & Clarke, 1990; Rumelt, 1995; Christensen, 1997)	Tendency of the status quo to persist	- Offering rich empirical support for persistence - Offering specifications and theoretical explanations of persistence, including: • age dependency • status quo biases; decision avoidance • individual motives • political deadlocks • dependency and focus on key customers
Organizational ambidex-terity (Duncan, 1976; Raisch & Birkinshaw, 2008); exploitation-exploration (March, 1991); punctuated equilibrium (Romanelli & Tushman, 1994)	Specification of the difference between continuing the status quo and breaking with it	- Implications of continuation and change for organizational learning - Investigation of the ability/challenges to pursue incremental and radical innovations at the same time - Antecedents of organizational ambidexterity
Momentum (Miller & Fiesen, 1980)	Resistance towards reversals in the direction of change in strategy and structure	- Offering empirical support for persistence - Offering specifications and theoretical explanations of persistence - Offering specifications and theoretical explanations for reorientations
Entrepreneurship and innovation management (Schumpeter, 1934; 1939; 1943; Kirzner, 1997; Tidd, 2001)	Approaches to overcome the status quo	- Development of various aspects of innovation, including: • Entrepreneurial personality and motives; entrepreneurial function • Specification of the opportunity concept • Creativity and ideation • Resistance, leadership, organizational culture • Employee participation; team organization • First mover advantage, innovation strategy; competitive advantage
Dynamic capabilities theory (Teece, Pisano & Shuen, 1997; Eisenhardt & Martin, 2000; Arndt, & Pierce, 2017).	Approaches to overcome the status quo	- Investigating the meaning of capabilities (as subject of organizational decision-making) for change - Specification and discussion of a number of different capabilities, including: • the ability to learn • the integration of new strategic assets • the transformation of existing assets

Table 1: Specification of the relation between research streams and the status quo

Table 1. *(Continued)*

Research stream	Relation to status quo	Key insights on the status quo
Turnaround management (Lewin, 1951; Kotter, 1995)	Approaches to overcome the status quo	- Introducing the stage concept of unfreezing—change—refreezing - Approaches to create an urgency to change - Advantages of the status quo
Path dependency (Nelson 1993; Sydow et al., 2009)	Longer-term development of the status quo (meso level)	- Investigation of how a given status quo determines possibilities for future development - National innovation systems
Evolutionary economics (Nelson & Winter, 1982)	Longer-term development of the status quo (macro level)	- Insights on economic developments that are caused by an innovation of the status quo - The meaning of routines for business organizations
Routine research (Simon, 1947; Betsch et al., 1999; Feldman &Pentland, 2003)	Micro-foundation of the status quo	- Explanation of the characteristics of the status quo - Insights on antecedents and drivers - Specification of the advantages of the status quo - Investigation into the challenges of operating outside the status quo
Dual process theory (Hodgkinson & Healey, 2008; Kahnemann 2003)	Micro-foundation of the status quo	- Like routine research - Investigation of the interplay between continuation and change

Table 1: Specification of the relation between research streams and the status quo

All the research streams in Table 1 build on a concept of the status quo with its distinct properties; in a neoclassical world of total flexibility, most of this research would be pointless. From all this follows that it makes a difference if something is already realized or not. The status quo therefore becomes a theoretical category as reference point for change. The substance of change is not just finding another solution as in the neoclassical theory of the firm, but overcoming an existing status quo.

Perhaps the most significant insight on the status quo after Schumpeter is its micro-foundation by routine research and the dual process theory, showing that the distinct characteristics of the status quo are grounded in the human bounds of rationality. This research allows an understanding of the antecedents of the status quo and the causes for its distinct characteristics. It allows an understanding of why the status quo is as it is. This research also allows us to position the status quo in a relation with neoclassical economics.

It should be noted that there is not only the current status quo but that status quo can also relate to the past and the future (in the same sense as the business models can). A future status quo is hypothetical and only gets its properties after its establishment. It is also important that the status quo of the firm is not completely stable, but allows for changes to the day-to-day business within the limits of given structures. Schumpeter has defined these structures by the production function; nowadays, the structure of firm activity is described by its strategy, its value chain – or its business model.

The Business Model as an Abstract Representation of the Status Quo

As with many other complex constructs there are also various definitions of the business model term. A few of these are collected in table 1 (a broader overview can be found in Massa et al., 2017). The table exposes how substantially different the definitions for the same construct are. Even though all definitions include value, they address different elements of it from different perspectives. One puts the focus on governance, another on competitive advantage, a third on customer needs, which all relate to completely different fields associated with different research streams. However, these definitions (and all other definitions that I know of) have one thing in common: they specify the business model as one distinct way to run the business.

Let us elaborate this using the example of the definition by Osterwalder and Pigneur (2010: 14): 'A business model describes the rationale of how an organization creates, delivers, and captures value.' In this definition, the specification of a business model is connected with one certain rationale. This rationale is constitutive in the sense that it distinguishes the business model – a different rationale leads to a different business model. In this sense, every different business model canvas also represents a different business

Table 2.	
Amit & Zott, 2001: 511	The business model depicts 'the content, structure and governance of transactions designed so as to create value through the exploitation of business opportunities.'
Osterwalder & Pigneur, 2010: 14	A business model describes the rationale of how an organization creates, delivers, and captures value.
Morris et al., 2005: 727	A business model is a 'concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in competitive markets.'
Chesbrough & Rosenbloom, 2002: 529	The business model is 'the heuristic logic that connects technical potential with the realization of economic value.'
Baden-Fuller & Haefliger, 2013: 1	A business model is 'a system that solves the problem of sensing customer needs, engaging with those needs, delivering satisfaction and monetizing the value.'

Table 2: Definitions of the business model term in highly quoted papers

model. The same applies to the other definitions: it is one certain 'system', one certain 'concise representation', etc. that specifies a business model. In all these definitions, a business model relates to a certain business reality, or in other words, to a certain status quo.

Given this, one can conclude the following conceptual relation between BM and status quo. *A business model is an abstract representation of a distinct status quo of a firm.* In other words, every business model (specific business model, like a filled business model canvas) is constructed in order to represent one certain status quo. The conceptual relationship between these two constructs is therefore very close.

This theoretical foundation of the business model leads to a first fundamental insight: Like the status quo, the business model is inherently static. This statement is a little difficult to understand and might irritate some readers, so it requires more detailed elaboration. Static means that one business model always relates to one specific structure of the business reality. This follows from all the definitions above, specifying the term business model as *one certain* 'content, structure and governance', *one specific* 'heuristic logic', *one specific* business model canvas – in other words as one certain way to run the business. To stick with a given business model means to stick with the given status quo; conceptually every structural change of the status quo leads to a new business model. This insight is not new, but has been recognized before, e.g. by Doz and Kosonen (2010).

However, static does *not* mean that it is not possible to change business models. To the contrary, that business models can be changed and are in fact changed on a frequent base is one of their key characteristics. There is a broad range of literature on business model innovation (Wirtz, Göttl and Daiser, 2016a), specifying management approaches (Teece, 2010; Chesbrough, 2010; Amit and Zott, 2012; Baden-Fuller and Haeflinger, 2013) and key elements and dimensions of business model innovation (Wirtz and Daiser, 2017). Research shows that it can be vital for firms to change their business model (Holm, Günzel-Jensen and Ulhøi, 2013). However, research also shows that it is often challenging to change an existing (and often previously successful) business model and that firms miss necessary changes (Christensen, 1997). Moreover, in the same way as with the status quo, business models allow for incremental day-to-day changes as long as these do not affect the structure of the business.

However, this static character should not be understood as a deficit or shortcoming, but as a positioning of the business model construct. Indeed, with its current definition, the business model takes a very important conceptual position for theoretical reasoning – as a reference point for change. In this way, the business model becomes the conceptual counterpart of the factual level of the status quo, which takes a central position in many theories. The business model specifies the structure of the status quo of the firm that is subject to be overcome by an innovation (leading to a new status quo in the moment where the innovation is implemented). In other words, it conceptualizes what to innovate. In this way, it also helps to understand the challenges that need to be addressed in the innovation process (Cavalcante, Kesting and Ulhøi, 2011). The entire reasoning about innovation becomes much clearer when based on a business model concept. For that reason, the business model is more than a mere research fashion.

Due to their close relation, status quo and business model interact with each other: On one hand, every business model is constructed with the aim of representing a certain status quo. The status quo is therefore the subject of the business model construction. On the other hand, the business model guides the perception of the status quo and with it decisions about continuation and change. People construct business models in order to create a basis for decision making. In this way, the status quo becomes the object of the business model. This interaction can be represented by the model in figure 1:

The ground structure of the model in figure 1 resembles a feedback model with an ostensive and performative aspect interacting with one another, not unlike e.g. that of Feldman and Pentland (2003). This is very much the case if the business model is developed as a planning tool and systematically used to monitor and control the business reality. However,

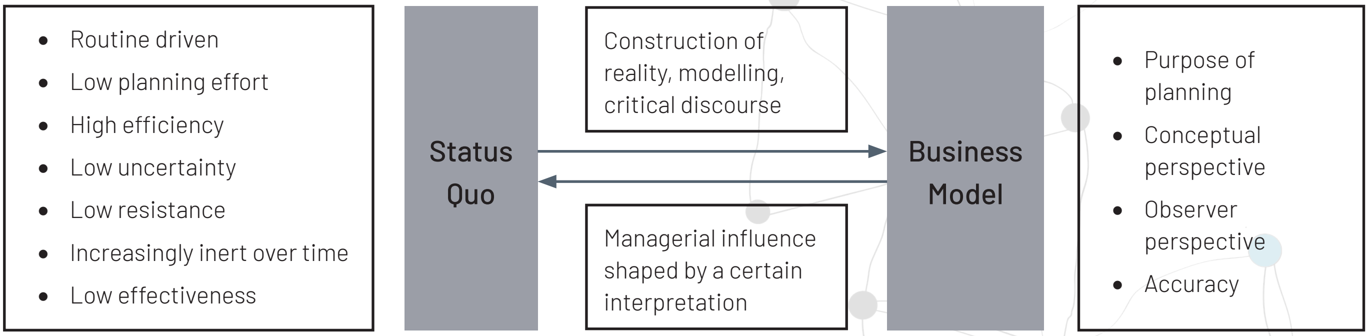

Figure 1: Model of the interaction between status quo and business model

business models are often also used in more informal and descriptive ways (Massa et al., 2017). In these cases, there is no strict feedback structure and the relationship becomes more interactive.

In its simplest form as represented in figure 1, the model has four elements, two positions, the status quo and the business model (the two boxes in figure 1), and two processes, business model construction and managerial influence (the two arrows, linking the boxes in figure 1). These model elements will now be specified in more detail. Let us first have a look at the distinctive characteristics of the status quo on one hand and the business model on the other. These characteristics help understand the differences between the two and why it is so important to distinguish between them.

The status quo

As outlined above, research offers comprehensive insights into the status quo, its attributes and its meaning for a firm's activity and change. Some insights which are particularly relevant to understanding the characteristics of the status quo come from its micro-foundation. These insights give a deeper understanding of underlying mechanisms that drive the status quo.

The basis for the micro-foundation is the stability; firm activity in the status quo broadly consists of repetition – of production and sales processes, promotion activities etc. This repetition is the basis for the development of routine; standard solutions are developed for standard problems (Betsch, Fiedler and Brinkmann, 1998, Betsch, Haberstroh, Glöckner, Haar and Fiedler, 2001). The longer it lasts – and the more stable it is – the more activity tends to be routinized in the status quo. This process of routinization shapes the characteristics of the status quo. Specifically, increasing routinization of the status quo leads to the following characteristics:

- First, planning needs tend to decrease because the use of standard solutions only requires some planning of application and adaptation, but not of the solutions as such (Simon, 1947; 1977; Betsch, Brinkmann, Fiedler and Breining 1999). This decrease in the need for planning is particularly relevant with regard to the strategic level of management capacities (Kesting and Ulhøi, 2010).
- Second, processes tend to become more efficient as with increasing repetition the firm goes through the learning curve (Arrow, 1962; Argote, 1999). Solutions are developed and refined as a result of planning, trial and error and feedback in the course of repetition (Nelson and Winter, 1982).
- Third, uncertainty tends to decrease and to be transformed into controlled risk (Simon, 1955; North, 1990). The use of standard solutions and their outcome have been observed repeatedly by members of the firm. Processes are refined and better understood and possible scenarios are identified and evaluated.
- Fourth, resistance tends to decrease after decisions are made and routines are established (Waddell and Sohal, 1998; Rumelt, 1995). In line with this, Nelson and Winter (1982) have characterized routine as a 'truce.' A successful status quo (i.e. an absence of change) can therefore be associated with a relatively low level of conflict.

These are significant advantages stemming from the continuation of a status quo. The persistence of the status quo therefore broadly results from its success; a change of the status quo is associated with high planning effort, leading to a structurally uncertain outcome. Decisions for change lead to disagreement and conflict. Wrong decisions and missing practice are seen as leading to inefficient results. This is why people say, 'never change a running system'.

Other reasons for persistence have been identified, for instance political deadlocks and the focus on existing markets and customers (Hendersen and Clarke, 1990; Rumelt, 1995; Christensen, 1997), as well as irrational status quo biases in decision making (Samuelson and Zeckhauser, 1988). Persistence is therefore multi-causal and not all reasons for it are grounded in the success of routine.

However, the inherent persistence means that the status quo is not fully flexible and adapted to context changes. As a consequence, the status quo tends to become ineffective over time (Betsch et al. 1999; Simon, 1947). Standard solutions are not adequate for changed problems or unchanged problems in a changed context anymore. As a result, a tension between the benefits of the status quo and the need for change arises. This tension becomes particularly challenging because it involves a comparison between the familiar (status quo) and the uncertain (outcome of a change).

These are some characteristics of the business reality, given that the status quo is continued over a longer period of time. However, these are not the characteristics of the business model, i.e. the simplified abstraction of the business reality. The confusion of these different levels of analysis is the cause of many misunderstandings and ambiguities. The business model in itself is a result of an intellectual construction; its characteristics depend on this process. The specification of the business model is that of an analytical procedure.

The business model

Some research is addressing the model-characteristics of business models already explicitly (Massa et al., 2017; Baden-Fuller and Morgan, 2010), however, there is a fully developed research body on abstraction and model construction in the theory of science. This should be the basis for the reflections about the characteristics of the business model as a construction in this section.

Understood as a model, a business model is a conceptual construction, based on an envisioning of the business reality. Like all other models, construction means that the business model is an outcome of a creative process. Already in 1908, Schumpeter points to the constructive nature of models, but he also notices that models are constructed in hindsight to capture real phenomena (Kesting, 2008). In connection with this, Weber (1978) introduces the notion of the ideal type, emphasizing the essential and abstracting from the unimportant. The concepts of both of them already imply that there is not one model, but rather that a variety of models can represent the same reality. And in fact, in conclusion of his review of 20th century philosophy, Caldwell (1982: 51) points out 'that for any set of data, an infinite number of theories can be developed to explain them.' Models are not right or wrong, but only more or less accurate and purposeful.

Caldwell (1982: 47) further concludes: 'Any observation requires both selection and interpretation by the observer, and such activities will be colored by the observer's prior theoretical framework, which incorporates such intangible qualities as interests, perspectives, past experiences, and anticipations regarding results.' This does not only apply to the observation, but also to the model construction. Based on this insight, four characteristics can be assigned to business models:

Purpose—There are many and various purposes to construct a business model (Massa et al., 2017). Business models are constructed in order to identify managerial opportunities (Nenonen and Storbacka, 2010); to reduce market risks of innovations (Euchner and Ganguli, 2014); to describe how strategy is put into practice (Rauter, Jonker and Baumgartner, 2017); but also due to academic interests, driven by a variety of research questions. This specifies the business model as a tool, helping to structure a complex business reality (Teece, 2018). The purpose defines the requirements for the tool. Information is prioritized according to its relevance, and relevance is determined by purpose (Weber, 1978). In this way, purpose becomes one important characteristic of the business model.

Conceptual perspective—Business models are typically constructed based on a given framework. This framework shapes the construction, its structuring, its content, and its focus. Currently, research and practice are dominated by the structure of the business model canvas (Osterwalder and Pigneur, 2010), but various other concepts have also been developed such as i.e. the business model framework by Hamel (2000) or the business model components by Morris, Schindehutte and Allen (2005) or the new business model canvas for platform businesses in two-sided markets (Taipale-Erävala, Salmela and Lampela, 2021). The conceptual perspective is a choice (since there are different perspectives) that closely relates to purpose.

Observer perspective—As emphasized by Hanson (1958) in particular and later supported by Popper (1965), every observer has an individual perspective on the outside world. This perspective is shaped by experiences and convictions, but also by values. In this context, Kuhn (1970) has pointed to the incommensurability of perspectives. A marketing executive typically has a different perspective on the same business reality than an engineer or financial advisor etc. Bini, Guinta, Nielsen, Schaper and Simoni (2021) have just brought up this point with regards to the understanding of the business model concept by users and preparers of financial statements, one out of many different target groups of business models.

Accuracy - Generally speaking, accuracy denotes the correspondence of the business model with the business reality. Accuracy is a key for the usefulness of the business model as a decision-making tool. This is not a question of perspective or purpose, but of constructing. However, as Caldwell (1982) shows, because an infinite number of business models can be constructed to describe the same business reality, there are no objective standards to judge accuracy; or as Harré (1985) has put it, 'there are no brute facts.' As a consequence, there is no objective procedure to judge accuracy, but accuracy needs to be assessed in a critical discourse in which arguments are presented and evaluated.

These characteristics specify the outcome of the modelling process, the construction of the business model. They describe the way in which the business model represents the business reality. This knowledge is important to understand the influence of business models on perception and decision-making. These characteristics are fundamentally different from that of the business reality that is described by the business model, so there are two different layers of observation. At this point, it is important to distinguish very carefully.

These are characteristics of the positions in the interaction model (figure 1). Let us next have a closer look to the processes, driving the interaction between status quo and business model. On the one hand, the status quo of a company shapes the business model as the one is constructed with the purpose to represent the other. On the other hand, also the business model can shape the status quo when management decisions are based on it. The following sections present an overview of insights research offers on these processes and of open research questions.

Business model construction

The status quo and the business model are positions, describing a state at a certain point in time. In contrast, business model construction describes a process, capturing a status quo in abstract terms and leading to the business model. It consists of the observation of a practice that is driven by certain interests and which leads to an abstract representation. This process is contingent on determining how a business model looks for a given business reality.

Literature on business model construction is dominated by handbooks, guides and instructions (Osterwalder and Pigneur, 2010; Bocken, Short, Rana and Evans 2013; Joyce and Paquin, 2016, and many more). Some insights on the construction process come from the literature on cognitive schemas (Massa et al., 2017). Clues can also be taken from the discussions about business model components (Wirtz et al., 2016b), business model representations (Zott et al., 2011), business model ontology (Osterwalder, 2004), and business model archetypes (Baden-Fuller and Morgan, 2010).

However, more research, less normative and more positive, is needed to gain a systematic understanding of the process of business model construction, particularly: A systematic identification of the drivers of business model construction; frameworks and criteria to discuss the accuracy of business models; frameworks and criteria to discuss the fit between purpose and approach. The result would be a conceptual foundation for business model construction and the discussion about accuracy and purposefulness.

Managerial influence

Business model construction is describing processes leading from business reality to abstract representation. In contrast, managerial influence describes processes leading from abstraction to reality, i.e. how the use of business models is shaping the business reality via management decisions.

Massa et al. (2017: 79) specify that 'the business model can be considered a dominant logic – a current thinking pattern or established belief or cognitive schema held by managers in organizations'. This quote is related to the understanding of business models as cognitive/linguistic schemas, but it can be understood more generally. This way, business models are shaping the managerial perception of the business reality (Bettis and Prahalad, 1995) and in particular also the process of opportunity recognition (Teece, 2007). They can be a key element of organization-level sense making or even used more strategically for sense giving (Gioia and Chittipaddi, 1991). Usually they are a result of, and their role is manifested in, social interaction (Massa et al., 2017).

By shaping managerial perception, business models become an antecedent of managerial decisions (Massa et al., 2017), having an impact on the status quo and leading to an interaction of both. This is particularly the case when business models shape innovation processes, leading to a change of the status quo (Massa et al., 2017; Teece, 2010; Afuah, 2014). The concept of business model innovation links innovation directly to the business model construct (Chesbrough, 2010; Amit and Zott, 2012; Foss and Seabi, 2017).

There is a large number of research contributions throwing a light on the general link between managerial perception and decision-making. For instance, research offers some evidence that the interpretation of strategic issues as an opportunity or threat has a critical impact on strategic decision-making (Jackson and Dutton, 1988; Thomas, Clark and Gioia, 1993). Chesbrough and Rosenbloom (2002) outline how the bias for an outdated business model blinded the management of Xerox for attractive opportunities. This case is interesting as it shows how the agreement on a business model – a certain interpretation of the business reality – influences action and becomes a source of inertia itself. This finding appears to go along with research on entrepreneurship where business plans are identified as a source of inflexibility (Sarasvathi, 2001). Hambreck and Mason (1984) throw a light on the meaning of subjective perceptions of top managers for management decisions. Research addresses sensing, social construction and envisioning (Teece, 2010, Teece 2018).

A very comprehensive and systematic study of the role that business models play in managerial cognition, particularly with regard to innovation, was recently been published by Sund, Galavan and Bogers (2021), concluding that there are still "numerous gaps in our knowledge" (p. 7).

Discussion

The conceptualization of the interaction between business model and business reality allows for conceptual clarification and a deeper understanding of underlying processes. Based on this, the key contributions of this paper are: a terminological and conceptual clarification; a conceptual foundation to investigate the interaction between business model and business reality; and building a bridge to neighbouring concepts.

Terminological and conceptual clarification

First, the conceptual grounding in this paper allows for a clarification of the relation between different business model definitions. Several researchers have already pointed to a mutual core of business model definitions. DaSilva and Trkman, for instance, (2014: 282), have specified the unifying ground structure of the business model construct as: 'Understanding how business works and how value is created for different stakeholders.' With the introduction of the status quo, the analysis of this paper offers a conceptual foundation for a closer specification of this unifying ground structure. *The mutual core of the business model construct is the aim to specify (capture and structure) one certain (current, past, projected) status quo of a firm*. This specification might not be so very different from that of DaSilva and Trkman, but it embeds the business model in a theoretical foundation – the status quo and the rich theory behind it. Other characteristics of the business model construct can be derived from this: The business model is (i) a unit of analysis (Morris et al., 2005; Zott et al., 2011) because of its association to a firm (as a unit). It is (ii) holistic (Zott and Amit, 2010; Joyce and Paquin, 2016) as it aims to provide a big picture of firm activity in the status quo. It (iii) focuses on value (creation, capture, Osterwalder and Pigneur, 2010; Chesbrough and Rosenbloom, 2002) because firm activity focuses on that. It (iv) is static because it describes one and only one status quo.

Differences in the business model concept result from different purposes as well as different conceptual backgrounds. The business model canvas by Osterwalder and Pigneur, 2010 is currently dominant, but there are other ways to represent the status quo of the firm. Hamel (2000), for instance, puts a stronger focus on strategy; Morris et al. (2005) have a stronger focus on the competitive advantage. This is a valid and immediate consequence of the construction and simplification procedure that leads to the business model. People from different functions typically see different things and have different interests. Some variety is therefore even supportive.

Secondly, the analysis of this paper offers a conceptual structure to clarify the semantic of statements about business models. Specifically, the analysis of this paper shows that the formulation 'a firm has a business model'—used as an attribute of a real firm (Massa et al., 2017)—also necessarily needs to build on a construction. This formulation expresses an observer's conviction that the business practice of the status quo of a firm is structured in a certain way. It is a statement about the factual level of business practice, 'the way firms do business' (Shafer, Smith and Linder, 2005: 126), or 'how a company makes money' (Birkinshaw and Goddard, 2009: 81). However, as outlined above, every conviction necessarily results from a construction by an observer – based on observation, interpretation, and simplification. Therefore, even statements about 'the way firms do business' are based on models – often informal models, less articulated and reflected, but still constructed. As a consequence, there is no substantial difference between business model conceptions at this point. *All verbally or graphically expressed business models, and even unarticulated convictions, are abstract representations of the business reality – there is no way around*. This perspective places a question mark on the distinction between business models as 'attributes of real firms' and 'formal conceptual representations/descriptions' by Massa et al. (2017).

Given this, business models can have different degrees of formalization. They can consist of an informal image of individual managers, giving a structured account of their perception of the business practice (Chesbrough and Rosenbloom, 2002). On the other side of the spectrum, business models can be fully elaborated and tested formal artefacts, representing the business practice of a firm, like a fully developed business model canvas (Osterwalder and Pigneur, 2010). But irrespective of the degree of formalization, business models are always constructed – in order to capture the business practice of a firm, but still constructed.

As a consequence, it is still valid to use a formulation such as 'the firm has a business model' as a statement about the business practice of a firm. However, the research should point to the informal character of such formulations and also to the complex relation between business model and business reality.

Investigation of the interaction between business model and business reality

Another contribution of this paper is the introduction of the interaction model itself, structuring and conceptualizing the processes that drive the interplay between business model and business practice. To date there are only general feedback models (like that of Feldman and Pentland, 2003), but there is no feedback model specifically related to business models. The function of the interaction model in figure 1 is to identify and distinguish elements, and position and relate them conceptually.

One important element of the interaction model is the identification and distinction of different characteristics of the status quo on the one hand and the business model on the other. These characteristics result from substantially different processes and have substantially different effects. The characteristics of the status quo result from repetition (stability) and routinization (efficiency, low resistance, etc.). The characteristics of the business model result from observation, abstraction and simplification (purpose, observer perspective, etc.). Both are related to cognition, but in very different ways. These characteristics are relevant drivers of processes, important for understanding, but often ignored. Some of these characteristics were described previously (for example: Cavalcante et al, 2011; Doz and Kozonen, 2010; Andries and Debackere, 2013), but only unsystematically; there was no concept for their theoretical positioning.

The interaction model allows for a more differentiated understanding of the function and use of the business model construct, more specifically because: first, it allows for a more structured analysis of how people construct and use business models. The basis for this is again the status quo as subject and reference point of the business model construction. The interaction model provides a frame for the what and how, namely the abstract representation of a (current, past, projected) status quo. The model also outlines the feedback and the influence of business models on decision making. Business models shape the perception of decision makers by providing an interpretation of the business practice, focusing of some aspects and abstracting from others. This is what business models are there for and why people spend time and effort on constructing them – to provide a better understanding of the business reality. More research is needed into this interaction process in order to get a better understanding of the influence of business models on managerial decision-making. This research might be able to support managers in their use of business models in order to improve managerial decision-making.

Secondly, the interaction model of this paper can contribute to the evaluation of the accuracy of business models. Accuracy means that business models are correct and exact. This becomes particularly relevant when business models are used as a basis for decision-making. Using inaccurate business models means that decisions are based on wrong assumptions. But what does accuracy mean in this context? How to assess accuracy? When business models describe company attributes on the reality level (like in Birkinshaw and Goddard, 2009 or Chesbrough, 2007), this question is meaningless because in this case business models are immediate. On the other hand, when business models are conceptual representations of the business reality (Massa et al., 2017; Osterwalder et al., 2005), accuracy requires a clear specification of the business reality to be represented. In this case, the status quo (with all its inherent characteristics) provides a reference point for the analysis and the interaction model helps to specify the meaning of accuracy with regard to business models. The core point is that without a clear concept of business reality (be it the status quo or any other concept) there is no assessment of the accuracy of a business model.

Building bridges to neighbouring concepts

Finally, the interaction model contributes to research by identifying and developing the status quo as a conceptual link between the business model and its neighbouring concepts (see also Colquitt and Zapata-Phelan, 2007). As outlined in table 1, the status quo is not only specified by research, but also an essential element of it. Against this background, the status quo can also serve as a theoretical foundation of the business model.

Based on this foundation, it is possible to position the business model conceptually in the research environment. At first glance, its static character seems to lessen the explanatory power of the business model construct. However, the opposite is the case: by representing the status quo of the firm, the business model can take over an important conceptual function for various research streams. Business models can give firms a face by conceptualizing what they presently (i.e. in the status quo) are and what they are doing. This is how Siemens, or IBM, or Google currently look. The business model offers a frame to capture the functions and processes within these firms. In this way, the business model fills the black box of 'the firm' with life. This perspective emphasizes the characteristic of business model as a holistic unit of analysis.

Previously in neoclassical economics, the firm was represented by the production function (Walras, 1874; Debreu, 1959). One might recall that based on this understanding, Schumpeter (1934) defines an innovation as a change of the production function. Like the business model, the production function is also a holistic unit of analysis, describing what a firm does. This conceptualization has dominated economic thinking from the 1870s onwards (Hausman, 1982). However, for business research, the abstraction of the production function was too strong and too focused on production. An increasing number of researchers were trying to capture the firm beyond that (including Simon, 1947; March and Simon, 1958; Cyert and March, 1963). There were some concepts which took the position of the production function (such as Porter's (1985) value chain), but none of these could prevail and none of these is as powerful as the business model. The 'black box' was often filled with a diffuse concept of 'the firm'. As a representation of the status quo of a firm, the business model is now filling this position in a very structured way.

Taking this position, the business model construct can make a considerable contribution to its neighbouring concepts. One example is the analysis of innovation, which can now be specified as a change of the business model in that the business model takes the position of a reference point of change, representing the static and inert status quo of the firm. This provides the management with a much more detailed picture of what it is facing. Not all building blocks are affected by change, and building blocks are affected in very different ways (Cavalcante et al., 2011). So in this way, the business model provides a new, far more differentiated conceptual foundation for a structural analysis of innovation. Similarly, the business model creates a new conceptual foundation for other research streams like inertia, dynamic capabilities, ambidexterity, turn-around management and others. The business model provides an instrument to locate inertia and relate it to specific processes and building blocks (and not only to a global 'firm'); it provides an instrument to investigate the effect of dynamic capabilities on different processes and building blocks etc. It can contribute everywhere where a holistic conceptualization of the firm is needed. This way, the status quo suits to build a conceptual bridge between business model research and the theory of the firm.

Conclusion

The theorizing of this paper takes some positions, particularly the strict understanding of the business model as a construct and its static character. However, its static character does not weaken the business model concept; on the contrary, it strengthens it, as it enables it to be positioned in a place where a strong concept was lacking so far, a holistic specification what a firm is and what it does in the status quo. In this way, the business model can take the position as a reference point for innovations. The status quo and the interaction model then offer a comprehensive grounding which is suitable for overcoming most of the theoretical deficits of the business model construct. It offers a clear theoretical grounding of the construction of the business model and also of its characteristics. Furthermore, it builds a conceptual bridge to the business reality; this way it establishes a link to well-developed theories of the firm. As a result, it provides a clear perspective of what a business model is and where it is positioned in the research context.

The most important practical implication is the establishment of clarity. This paper urges practitioners to carefully distinguish between business model and business reality. In this way, not only can a lot of misunderstandings be avoided. Practitioners also get a better understanding of the construction and use of business models. It is useful to be aware that construction serves a purpose and that it is shaped by the conceptual and observer perspective. This insight might facilitate the development of a variety of applied business model canvases like the one just proposed by Taipale-Erävala et al., (2021). The reference to the status quo provides an anchor for the variety: all canvas variations describe the same status quo, but from different perspectives. Carefully differentiating between business model and business practice can also help practitioners incorporate the business model concept into their understanding of the company, particularly with regard to innovation and routine.

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