

# **BUSINESS MODELS: A ROUTINE DYNAMICS RECONCEPTUALIZATION**

**Anup Karath Nair, Luciana D'Adderio, Jonathan Corney**  
**University of Strathclyde**

## **ABSTRACT**

Despite its widespread use within strategy and innovation research the notion of “business model” as a theoretical construct remains ill-defined and conceptually underdeveloped. In this conceptual paper, we address these limitations, first, by identifying some of the reasons for the lack of consensus around business models conceptualisation, and, second, by reconceptualising business models from a novel perspective based on Routine Dynamics. More specifically, we show how the lack of theoretical integration between the transaction cost economics, Schumpeterian innovation, resource based theory, strategic networks and cognitive perspectives that underpin current business models research act as a major source of theoretical dissonance. We elaborate and illustrate these arguments by drawing on the business models of Amazon, a leading e-commerce firm. We then propose a routine dynamics perspective to integrate insights from the various perspectives within business model research. Our findings contribute towards further integrating BM research with Management and Organisational Theory.

“When a company comes up with an idea, it’s a messy process. There’s no aha moment”  
(quoted in Stone, 2013, p. 25).

Jeff Bezos, Founder and CEO of Amazon

“I think historically where we [venture capitalists] fail is when we back technology. Where we succeed is when we back new business models” (quoted in Johnson, et al., 2008).

Bob Higgins, Founder and General Partner of Highland Capital Partners

## 1.0 INTRODUCTION

The advent of the digital era since the early 1990s and the prominent role of e-commerce and digital technologies within today’s organisations has resulted in a resurgence of scholarly and practitioner interest in ‘Business Models’ (hereafter BM) scholarship (Massa, et al., 2017; Wirtz, et al., 2016; Demil, et al., 2015; Amit & Zott, 2001). Business models of organizations like Google, Facebook, Amazon, Netflix, Spotify and more recently Airbnb and Uber, to name a few, have not just enjoyed widespread coverage within the business press but also attracted substantial scholarly attention. This flourish in scholarship is widely attributed to the ability of BM to elucidate how organizations can be linked to external stakeholders in order to engage in economic exchanges with them to create value for all involved partners (Zott & Amit, 2007; Taran, et al., 2015). BM therefore serves as a shorthand for describing “the design or architecture of the value creation, delivery and capture mechanisms employed” (Teece, 2010, p. 191).

Despite its widespread influence on management research and popularity with business practitioners, ‘business models’ as a theoretical construct remains ill-defined (Saebi & Foss, 2015; Taran, et al., 2015; George & Bock, 2011), conceptually under developed (Klang, et al., 2014; Spieth, et al., 2014; Zott, et al., 2011) and has been criticized for promoting faulty thinking that could muddle a firm’s strategy (Porter, 2001). The BM construct, as Zott, Amit and Massa (2011) point out, has been variously interpreted as referring to “*a statement, a description, a representation, an architecture, a conceptual tool or heuristic logic, a structural template, a method, a framework, a pattern or as a set of elements*” (p. 1023, emphasis in original), that explains how a firm does business. The diverse perspectives on ‘business models’ are suggestive of the fragmented consensus that underpins its precise conceptualisation (Bogers, et al., 2016; Spieth, et al., 2014; Zott, et al., 2011). There are arguably three main reasons why this conceptual imprecision persists.

First, scholars remain divided over what the ‘business’ and ‘model’ aspects of the BM construct mean. With regards to the ‘business’ component of the BM construct, prior research has identified five dominant business rationales or ‘logics’ that guide value creation. Theorists have argued that “business models can create value by increasing efficiency (anchored in transaction costs economics), developing novelty (through Schumpeterian innovation), exploiting complementarities (anchored in resource-based theory), creating lock-ins (inherent in strategic networks)” (Zott & Amit, 2013, p. 403), and harnessing knowledge rather than information flows (Martins, et al., 2015; Chesbrough, 2010). Despite their individual merits, the lack of integration between these varied theoretical perspectives, has so far obscured the processes and mechanisms through which business models create and capture value. With regards to the ‘model’ component of the construct, research has focused on the multiple and mediating roles embodied by ‘model’. Here scholars have shown how a model could act either as the means to describe and classify businesses, or operate as site for scientific investigation or function as recipes for managers (Baden-Fuller & Morgan, 2010). We propose that the absence of theoretical framework able to integrate between the multiple ‘business’ and ‘model’ perspectives has led to a proliferation of fragmented theoretical and practical insights about how business models can be introduced and made to work within organisations.

Second, there is a lack of appreciation in the extant literature for the change-related aspects of the BM construct. Prior research has been successful in highlighting the crucial role played by business models within a firm’s strategy (Coff, et al., 2013; Casadesus-Masanell & Ricart, 2010; Demil, et al., 2015; Massa, et al., 2017) especially in the context of technology driven innovation (Johnson, et al., 2008; Chesbrough, 2010; Baden-Fuller & Haefliger, 2013; Tongur & Engwall, 2014). However, both strategy execution and innovating involve change and are fundamentally non-linear, dynamic processes constituted by convergent and divergent activities (Garud, et al., 2013; Sminia, 2016). Yet much of the business models research has focused so far on business model ‘choice’ rather than business model ‘change’. This has had the unintended consequence of theoretically privileging ‘static approaches’ (Wirtz, et al., 2016) that are often unable to illuminate the process of business model evolution over ‘transformational approaches’ (Demil & Lecocq, 2010; Massa, et al., 2017). Thus in business model research, the theoretical and practical questions about the processes through which business model change, how to manage BM transition and how, during transition, to manage

simultaneously more than one model, remain under researched (Arend, 2013; Markides, 2013; Tucci, et al., 2016).

Third, literature has so far largely neglected the temporal aspects of BM evolutions. In this respect we build on contributions that have highlighted the need for BM designers to gain deep insights into the mechanisms for value creation and capture (Saebi & Foss, 2015; Spieth, et al., 2014; George & Bock, 2011). Prior research by Zott and Amit (2010), for example, has proposed how embracing an activity systems perspective can shed light on “the set of which activities a firm performs, how it performs them, and when it performs them” (p. 219). Gathering these insights, however, requires not just a deeper understanding of the ongoing dynamics resulting from interdependencies between design elements and design themes which constitute an activity system, but also an explication of the temporal dynamics that influence how these interdependencies are shaped and adapted by BM designers over time. The limited insight into the practice of BM design, maintenance and adaptation highlights the need for further theoretical developments which link process, practice and time within BM research (Zott & Amit, 2013; Perkmann & Spicer, 2010).

In sum, imprecision of the ‘business models’ theoretical construct, the paucity of research using ‘transformational approaches’ and insufficient insight into practices and processes through which business models create and appropriate value, have all ensured that we still know little about how organizations can introduce new business models, manage them, adapt them and make them work (Demil, et al., 2015; Spieth, et al., 2014; Velu & Stiles, 2013; Zott, et al., 2011). Tackling these challenges requires us to not just untangle the current theoretical discrepancies and dissonances within the ‘business model’ construct but to also reconceptualise the construct to allow us to develop theories that are consistent with the ‘transformational approach’. The resulting theoretical precision would further our understanding of the complex processes and mechanisms driving value creation and capture within organisations.

In this paper we seek to strengthen BM research and practice by exploring the main theoretical ‘fault lines’ (Zott, et al., 2011) within it. Our review and analysis suggests that, conceptually, BM are underpinned by five dominant theories: transaction cost economics, Schumpeterian innovation, resource-based view, strategic networks and cognitive view. The origins of the conceptual confusion within BM research, we argue, arises from the inherent

limitations and the lack of integration between these five theoretical perspectives. We illustrate our arguments by drawing on the case of Amazon, the leading e-commerce organization. Next, we introduce and develop a ‘routine dynamics’ inspired theoretical framework to reconceptualise BM. We then illustrate how our newly developed framework integrates insights from the various perspectives. This paper concludes by outlining a new and exciting research agenda made possible by the reconceptualization of BM proposed here. Overall, we contend that reconceptualising BM from a ‘routine dynamics’ perspective allows both theorists and practitioners to further understand the complex processes and mechanisms driving value creation and capture within organisations.

## **2.0 CONCEPTUAL ISSUES WITHIN BUSINESS MODELS RESEARCH**

The ‘business model’ (BM) construct within management research is underpinned by five dominant theoretical perspectives. These include the transaction cost economics (TCE) perspective, which explains how value is created through efficiency, the Schumpeterian evolutionary perspective, which explains how value is created from novelty that results through innovation, the resource-based theory (RBT) perspective, which explains how value is generated from the complementary resources that the BM combines, the strategic networks perspective, which explains how lock-ins create value and, finally, the cognitive perspective, which explains the ‘dominant logic’ through which value is created (Martins, et al., 2015; Zott & Amit, 2013; Chesbrough, 2010; Massa, et al., 2017). The definition of the BM construct and the resulting conceptual ambiguities that are discussed below can be traced back to the uncomfortable coexistence of these diverse - and seemingly contrasting - theoretical perspectives.

### **2.1 TRANSACTION COST ECONOMICS (TCE) PERSPECTIVE**

The widespread definition of BM as “the content, structure, and governance of transactions designed so as to create value through the exploitation of opportunities” (Amit & Zott, 2001, p. 511) can be traced to its TCE underpinnings. Here, BM are constituted by configuring several transactions designed to increase efficiency within a firm’s performance (Zott & Amit, 2008; 2007). Central to the TCE perspective pioneered by Williamson (1975; 1991; 2010) is the concept of governance which describes how a firm operates. According to

Williamson's TCE perspective, and in contrast to the neo-classical lens of choice, governance is better understood by investigating an organization through the lens of contracts. The focus on 'choice' reduces the business model to a black box for transforming chosen inputs into outputs. This masks the inner workings of the business model, by concealing what is actually going on. Thus, according to the TCE economizing perspective, studying the governance of contractual relations within business models by focusing on the complexity and asset specificity of a transaction - along with disturbances to which these transactions are subjected - may offer glimpses into its inner workings (Williamson, 2010; Ketokivi & Mahoney, 2016).

Business models as conceptualised from a TCE perspective result in what Baden-Fuller and Morgan (2010) call, 'scale models and role models' (p. 157). Such models enable us to classify businesses in a taxonomy or a typology. By linking the general idea of business models with notions of taxonomies and 'kinds', it is possible for scholars and practitioners to identify various dimensions of and levels within a business model through the "successful characterization of similarity and the definition of difference" (Baden-Fuller & Morgan, 2010, p. 159) that separate the various ideal type business models. For example, venture capitalists within the software industry make a distinction between two generic business models, namely Open Source Software (OSS) models and closed business models, while contemplating their business investments (Colombo, et al., 2016).

However, these ideal type business models that emerge from the TCE perspective have at least four crucial limitations. First, the TCE perspective is set within the 'bounded rationality' framework which implies that "it is difficult for decision makers to be forward looking in contracting" (Ketokivi & Mahoney, 2016, p. 132). The TCE perspective in fact results in an ex-post governance construction of business models which is of little use to practitioners - for whom all the relevant action occurs *ex-ante*, or prior to the signing of the contracts (Ketokivi & Mahoney, 2016; Williamson, 2010). Second, such business models suffer from what Baden-Fuller and Morgan (2010) call the "'in-between' quality" (p. 159) where it is possible for generic kinds of business models to be distinctly different across firms.

For example, even though both Ryanair and Easyjet qualify as airlines with 'low cost' business models, there exists significant differences in how each company structures its transactions with external stakeholders for realizing the relevant value proposition, and in the mechanisms of value capture that each company deploys. This arises because the TCE perspective, by assuming bounded rationality to be a fixed background condition, fails to recognise that

contracting capabilities may vary significantly across organisations (Ketokivi & Mahoney, 2016; Weber & Mayer, 2014). Therefore, these generic models are neither the same nor are they completely different and this ‘in-between’ quality limits their theoretical potential.

Third, in practice it is not possible to separate governance decisions from governance actions and this makes ‘transaction’ a problematic unit of analysis (Ketokivi & Mahoney, 2016; Ghoshal & Moran, 1996). Finally, the TCE perspective fails to make a distinction between the ‘static’ and ‘dynamic’ modes through which firms attain efficiency (Ghoshal & Moran, 1996). As Ghoshal and Moran (1996) correctly highlight, the pursuit for efficiency in the short term need not always coincide with what is efficient in the long term. This is because of the tradeoffs between exploration and exploitation with organizations. Efficiency, in a static sense, depends on maximising exploitation which in the absence of exploration will lead to obsolescence (March, 2008), Since the TCE perspective advocates efficiency as the guiding principle of business model design this excludes “innovation related activities that are efficient only in a dynamic sense and that often defy the explicitness necessary for “logistical” coordination” (Ghoshal & Moran, 1996, p. 35).

To summarize, from the above discussion we can see that the BM construct that is underpinned by the TCE perspective serves as a classificatory device which can differentiate between the content, structure and governance of various business models. However, this perspective is unable to capture both the dynamics of business model design change and the stability of business model designs over time. Since an explication of these dynamics is essential to understanding business model evolution and business model innovation, we must therefore search beyond the TCE perspective on business models.

## 2.2 SCHUMPETARIAN EVOLUTIONARY (SE) PERSPECTIVE

The Schumpeterian Evolutionary (SE) perspective which underpins BMs offers explanations for how the BM construct can create organisational value through novelty from innovation. The SE perspective, which in the past has been used by theorists like Chesbrough and Rosenbloom (2002) to theorise technological innovation, define business models as “a coherent framework that takes technological characteristics and potentials as inputs, and converts them through customers and markets into economic inputs. The business model is thus conceived as a focusing device that mediates between technology development and economic value creation.” (p. 532).

Routines understood as decision rules and standard operating procedures (Cyert & March, 1992/1963) are fundamental to the SE perspective that links the idea of “rules-based action in firms with the idea of evolutionary change” (Becker, et al., 2006, p. 371). Actions, according to this perspective, stem from matching routines developed through history to recognisable situations (Schumpeter, 1934). The emergence of novelty and innovation within a system based on routines is identified with two sources – the combinatorics of routines and the unreliability of routine imitation (Winter, 2006). To date, however, regularities in combining routines or regularities that trigger variations within routines replication remain topics which require further scholarly inquiry (Winter, 2013; D'Adderio, 2014). Put differently, the endogenous emergence of novelty remains undertheorized within the SE perspective.

The business model construct from the SE perspective is therefore closely aligned to Baden-Fuller and Morgan’s (2010) idea of models as “instruments of scientific enquiry” (p. 157) which allow managers to formulate and verify their hypothesis about identifying customers wants and how best their organisation can meet those needs, and get paid for doing so (Teece, 2010). According to Becker, Knudsen and March (2006), the SE perspective thus far can only account for incremental changes within existing routines based on experiential learning and for inter- and intra-firm diffusion of routines, but is silent about the endogenous generation of novel routines. The inability of this perspective to account for this distinctive and a crucial feature of business model evolution and innovation, remains a limitation of the SE framework.

In sum, the SE perspective is useful in addressing how the BM construct can explain novelty resulting in innovation. Yet, its inability to offer insights into the possibilities for novelty and business model innovation in the absence of exogenous change curbs its potential to capture the dynamics and processes of business model change and evolution (Martins, et al., 2015). Therefore, a number of questions such as “Why and how do business models come into being? Do they emerge as part of an evolutionary dynamic, or are they purposefully designed by entrepreneurial actors? Which parts of the design process are planned, and which parts are emergent? And what are the implications of these various processes for the resulting business model designs? What is the role of the environment and social processes in shaping business models?” (Zott & Amit, 2013, p. 407) still require answering.

### 2.3 RESOURCE BASED THEORY (RBT) PERSPECTIVE



The RBT perspective attributes the ability of business models to create and appropriate value to its ability to bring together complementary resources. This rationale is most apparent in those contributions which define the BM construct by identifying its constituent elements.

For example, BMs are defined by Tikkanen, Lamberg, Parvinen, and Kallunki (2005) as “a system manifested in the components and related material and cognitive aspects. Key components of the business model include the company’s network of relationships, operations embodied in the company’s business processes and resource base, and the finance and accounting concepts of the company” (p. 792). Business models, here, combine key elements such as customer value proposition, profit formula, key resources and key processes by interlocking them in complementary ways in order to create and deliver value (Johnson, et al., 2008).

Apple’s business model provides a classic illustration of the RBT perspective. Apple manufactures and sells products like the iPod and iPhone along with music and apps which complement these devices through iTunes. Central to the RBT perspective are four criteria that a resource should fulfil for it to create and capture value. These are collectively known as the VRIN criteria which stands for valuable, rare, inimitable and non-substitutable (Barney, 1991). The task of business model designers is to identify and design business models with resources that fulfil these criteria.

The BM construct that emerges from the RBT perspective is also akin to either ‘role’ or ‘scale’ models’ that can be used to develop a classification of various ‘kinds’ and ‘types’ of business models (Baden-Fuller & Morgan, 2010). Baden-Fuller and Morgan (2010) explain the research significance of such classification by illuminating the distinction between a ‘taxonomy’ and a ‘typology’. According to them:

“The usual way to differentiate them is to think of a taxonomy as being the classes (or kinds) of things observed in the world, and as being developed from empirical work, bottom up. A typology is usually understood as delineating types of things (or events) where the types are decided theoretically or conceptually by the scientist, top down” (p. 161).

Despite supporting our understanding of what elements constitute various business models, the abstract knowledge identified by BMs ‘kinds’ and ‘types’ sheds little light on the dynamic processes through which models may be constituted and change over time. The detachment of the BM construct from the actual practices by which these are created and evolve

represent a limitation of the RBT perspective. Another aspect in respect to which the RBT perspective on business models has also been criticized is its inability to explain what makes resources valuable and how to a firm can protect itself from imitation by competitors (Demil, et al., 2015). In the words of Kraaijenbrink, Spender and Groen (2010), “ It seems to tell managers to develop and obtain VRIN resources and develop an appropriate organization, but it is silent on how this should be done” (p. 351). In attempt to develop a more dynamic RBT perspective that factors in organisational evolution and change, scholars have proposed ‘dynamic capabilities’ to explain how competitive advantage can be maintained (Teece, et al., 1997; Teece, 2007; Teece, 2014). Despite this progress, however, the endogenous processes required to manage resources, the associated processes of resource and capability development and their variation across context remains an open research agenda (Barney, et al., 2011).

In summary, the RBT perspective on business models “emphasizes configurations of resources in use; more precisely, configurations of activities enabled by resources, rather than individual resources or static resource bundles alone. The business model, thus, complements the received wisdom about value creation and capture, rather than substituting for it” (Demil, et al., 2015, p. 3). However, the paucity of research linking the processes that allow the configurations of activities (enabled by resources) into business model designs that create and capture value, has so far hemmed in the theorizing potential of the BM construct.

## 2.4 STRATEGIC NETWORKS (SN) PERSPECTIVE

Scholars have also experimented with a SN perspective as alternative theoretical foundation for the BM construct. According to them , a business model is a “particular business concept (or way of doing business) as reflected by the business’s *core value proposition(s) for customers*; its *configured value network* to provide that value, consisting of *own* strategic capabilities as well as *other* (e.g. outsourced/allianced) value networks; and its continued *sustainability* to reinvent itself and satisfy the multiple objectives of its various stakeholders” (Voelpel, et al., 2005, p. 40). Here, it is the *configured value networks* that create the lockins required to create and appropriate value. The business model for Microsoft’s Windows Operating System, along with Google and Facebook’s business model for digital advertising, are classic examples of BMs which can be portrayed effectively through adopting a SN-inspired

perspective. In this case, it is the configuration of value networks that attract and retain customers by locking them into the specific product or service.

According to the SN perspective, an organizational network can be defined as a set of nodes representing connections and relationships (or lack of relationships) between higher level collectives like organizations or organizational units (Ahuja, et al., 2012, p. 434; Phelps, et al., 2012, p. 1117). The SN perspective can therefore help investigate and evaluate those organizational arrangements within the BM construct (like partnerships, cooperative arrangements, joint ventures, strategic alliances, collaborative arrangements, coalitions and consortia) through which organisations gain access to the resources and capabilities required to innovate (Provan, et al., 2007, pp. 480-481; Zaheer, et al., 2010; Ahuja, et al., 2012). The models that emerge from such analysis therefore tend to be akin to either role or scale models that can be used for classification.

Embracing a SN perspective however has at least two possible limitations. First, this perspective views networks and their features as given entities which underpin the emergence of a business model. Therefore, such research tends to focus on business models that are networked ex-post, this falling short of capturing the challenges and processes required to bring such networks into being (Meyer, et al., 2005). Due to its backward-looking orientation, the SN perspective offers sparse managerial insight into the network forming processes which are the key to business model design and change (Zaheer, et al., 2010; Ahuja, et al., 2012). Second, SN research has often fallen into the epistemological trap of conflating information with knowledge thus obscuring the mechanisms and “knowledge composition activities of network members” (Phelps, et al., 2012, p. 1143) through which information is actually translated into the knowledge required for creating favourable lock-ins within business model design.

Explicating such lock-in mechanisms would require a ‘networks development’ (Paquin & Howard-Grenville, 2013; Schreyögg & Sydow, 2011) SN perspective focused on network evolution.

In sum, the BM construct when viewed from the SN perspective is conceptually immature and falls short of illuminating the evolving processes and mechanisms used by managers and designers of business models to orchestrate networks and create lock-ins that allow organisations to generate and capture value.

## 2.5 COGNITIVE PERSPECTIVE

A final framework developed to capture and theorize the BM construct is the cognitivist perspective. Scholars in this school of thought have variously viewed the BM construct as a ‘heuristic logic’ (Chesbrough & Rosenbloom, 2002, p. 529), ‘dominant logic’ (Chesbrough, 2010, p. 358), ‘sensemaking device’ (George & Bock, 2011), ‘cognitive instrument’ (BadenFuller & Mangematin, 2013), ‘cognitive framework’ (Klang, et al., 2014, p. 455), ‘cognitive conception’ (Velu & Stiles, 2013) and ‘cognitive structure’ (Martins, et al., 2015, p. 105). This perspective defines a business model from a cognitivist standpoint as a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm (Osterwalder, et al., 2005). Thus the BM is “a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams” (Osterwalder, et al., 2005, p. 17).

The cognitivist perspective in business model research offers several advantages. First, as a cognitive device, the construct neatly encapsulates “the rationale of how an organization creates, delivers, and captures value” (Osterwalder & Pigneur, 2012, p. 14), a characterization which allows entrepreneurs and managers to coherently articulate the intended outcomes of their plans, prior to their realisation. Second, a cognitive conception can, in theory, capture all the three essences of ‘models’ (Morrison & Morgan, 1999; Morgan, 2012), namely, as classificatory role models and scale models; as “manipulable instruments with which to reason and into which to enquire” and tools that “allow the user of the model to explore ideas” (BadenFuller & Haefliger, 2013, p. 420); and as recipes that give advice on how to do something (Baden-Fuller & Morgan, 2010). This versatility makes the cognitivist perspective amenable to different approaches. Third, a cognitive perspective, through analogical reasoning and conceptual combination, can offer an endogenous account of business model change (Martins, et al., 2015). This therefore adds to those studies of business model evolution which view this mostly as a response to an exogenous shock (technological, regulatory, etc) or trial and error learning triggered by environmental change.

These advantages notwithstanding, the cognitive perspective seemingly presents two limitations in respect to its potential to explain business model development. First, the cognitive perspective emphasises business model ‘choice’, a notion which neglects business model ‘change’. While usefully incorporating ‘planned change’, and ‘emergent change’ into the BM construct, this perspective overlooks the substantial difficulties that are involved in changing

the business models themselves (Teece, 2010, p. 181). This oversight risks reducing business models to an “ ‘off the shelf’ management practice that can be implemented almost as an add-on to existing practices and organizational arrangements in the company” (Saebi & Foss, 2015, p. 202). Second, information plays a key role within the cognitive perspective in providing the means to articulate the BM logic. However, as Winter and Szulanski (2001) argue, “the formula or business model, far from being a quantum of information that is revealed in a flash, is typically a complex set of interdependent routines that is discovered, adjusted, and fine-tuned by ‘doing’” (p. 731). In separating the ‘plan’ from its ‘execution’, the cognitive perspective leaves insights from the ‘doings’ underexplored and undertheorized.

To summarise, the design and exploitation of business models requires a much more detailed and context dependent understanding of the relationship between business model ‘choice’ and organisational ‘outcomes’. This invokes the need for a ‘transformational’ (Demil & Lecocq, 2010) reformulation of the BM construct, which requires insight into the activities and the associated organisational routines that contribute to creating, sustaining and transforming organisational business models. We therefore need to move beyond the cognitive perspective to explore how business models are brought into being and maintained.

## 2.6 SUMMARY

Overall, much scholarly effort has been devoted to develop an all-encompassing definition and model for BM development. Notwithstanding the highly valuable insights by the TCE, SE, RBT, SN and cognitive perspectives on BM, they have left substantial scope for further theory development. Their focus on how the ‘business logic’ can be mapped onto design choices, for example, leaves open the potential to explore the more complex, situated and dynamic practices and processes underpinning the emergence and development of BMs within organizations. Our core argument is that the BM reality is more complex and challenging for organizations than simply selecting amongst possible alternative strategies. As Brea-Solis, Casadeaus-Masanell and Grifell-Tatje (2015), in their analysis of Walmart’s BM conclude, while the choice of a particular BM may be important to explain competitive advantage, even more important may be the particular implementation of a business model. For this reason, deeper insight is required into the link between the set of activities that the firm performs in designing, implementing and evolving BMs and the outcomes of performing these activities (Massa, et al., 2017) for the organization and BMs themselves.

### **3.0 CHALLENGING CURRENT BUSINESS MODEL THEORY: THE AMAZON MODEL**

Business Model development within Amazon, a pioneering online retailer, offers vantage points to illustrate some of the advantages and limitations of the framework proposed by Zott and Amit (2013). It could be argued, for example, that Amazon's online retailing business model and Amazon Marketplace - its platform for third party sellers which sell a wide range of products to customers at prices lower than most traditional retailers - are guided by efficiency anchored in transaction costs economics. At the same time, however, Amazon Web Services (AWS) - its highly profitable cloud computing business model which allows firms to store data and run applications without having to buy expensive servers or hire specialized engineers - is driven by economies of scale generated from lock-ins inherent within strategic networks. In addition, the Amazon Kindle e-book was a novel product which resulted from Schumpeterian innovation. Furthermore, the business model that bundles the Kindle e-books with the Kindle digital library - to ensure that "Kindle owners would have the equivalent of a Barnes & Noble bookstore at their fingertips" (Stone, 2013, p. 312) - was clearly guided by complementarities anchored within the resource-based theory.

It is the synergy between its various businesses which has allowed Amazon to upend both the retail and book publishing industries. Put differently, efficiency, novelty, complementarity and lock-ins, as the Amazon example suggests, could be interpreted not so much as alternative design choices or themes but, rather, as as-yet unintegrated theoretical perspectives within BM research which obscure the more complex processes and mechanisms through which value is created and captured.

Compounding this issue are the multiple, mediating roles embodied by the 'model' aspect of the construct whereby a model could variously act as the means to describe and classify businesses; a site for scientific investigation; or a recipe for managers (Baden-Fuller & Morgan, 2010). The absence of an overarching theoretical framework which integrates the various 'business' and 'model' perspectives, has led to a proliferation of fragmented theoretical and practical insights about how business models can be introduced and made to work within organisations. As a consequence, questions about the multiple and intersecting processes through which BMs change, how the transition is managed, and how firms with more than one

model might be able to simultaneously manage these models remain largely unanswered (Tucci, et al., 2016; Spieth, et al., 2014; Markides, 2013).

These insights suggest the need for a more dynamic reconceptualization of the ‘business model’ construct. In order to do this, we propose a novel theoretical framework which builds on the ‘activity systems’ perspective on BM (Zott & Amit, 2010) while also extending and integrating it with the literature on organisational practices and routines. Reconceptualising business models creation and exploitation processes as complexes of ongoing organisational routines which are sustained by various activities and heterogeneous stakeholders, we argue, will allow us to theorise the deeper dynamics by which business models are enacted and transformed.

#### **4.0 RECONCEPTUALISING BUSINESS MODELS: A ROUTINE DYNAMICS PERSPECTIVE**

In order to better understand and explain the Amazon model, we develop an alternate conceptualisation of BM based on the notion of ‘routine dynamics’ (RD) and related framework (Feldman, et al., 2016). According to this framework, a routine is understood as “a repetitive, recognizable pattern of interdependent actions, involving multiple actors” (Feldman & Pentland, 2003, p. 96). Thus, unlike the SE perspective where routines are viewed as “fixed response to defined stimuli” (March & Simon, 1958, p. 142), the RD framework views routines as “practices with internal dynamics that contribute to both stability and change in organizations” (Feldman, et al., 2016, p. 505; Feldman, 2000). The RD framework therefore moves beyond the early black-boxed image of routines-as-entities (Feldman, 2016) and allows us to examine “the conditions, relations, and creative sociomaterial processes that underlie the process of repetition and the difference, multiplicity, relationality, and materiality through which routines are repeated into action” (Aroles & McLean, 2016, p. 536).

##### **4.1 OUTLINING THE ROUTINE DYNAMICS FRAMEWORK**

To further unpack these qualities of stability and change within routines, and in order to account for the role of human action in shaping routine dynamics, Feldman and Pentland (2003) conceptualize routines as having two mutually constitutive aspects: an ostensive aspect and a performative aspect. The ostensive aspect of routines refers to the general, abstract pattern of a routine as it is enacted by participants; the performative aspect, instead, refers to the routine as

enacted in “specific actions, by specific people, in specific places and times” (Feldman & Pentland, 2003, p. 101), In other words, “ostensive aspects provide resources to guide and account for action, whereas performative aspects recreate, maintain, and modify ostensive aspects” (Sonenshein, 2016, p. 741). Thus a key strength of the RD framework is its ability to connect organisational routines to its corresponding actions which create and recreate them. Recent research by Feldman, Pentland, D’Adderio, and Lazaric (2016) has outlined three central assumptions within the RD framework. According to these authors:

- “1. Action in routines is situated. 2. Actors are knowledgeable and often reflective.
3. What appears to be stable (e.g., a routine) is only stable for now, at best. Stability is an accomplishment. Routine dynamics deliberately puts actions in the foreground and, thus, the unit of observation is situated action” (p. 506).

The focus on action within the RD framework has three important implications for our understanding of organisational routines. First, routines are *relational*, meaning that the nature of the routine depends on the wider connections in which it is embedded (Feldman, et al., 2016). Second, routines are both *effortful* accomplishments and *emergent* accomplishments. Not only does it take effort by actors to produce the “same” pattern of action, but also the outcomes accomplish though these routines are also emergent and require sustaining (Feldman, et al., 2016; Feldman & Pentland, 2003; Birnholtz, et al., 2007). Third, the action patterns constituting the routine are both *situated* and *temporal*. This makes organizational routines dynamic because “they exist through a process of (re)production, over time and space, through the ongoing effort of actants (people and things)” (Feldman, et al., 2016, p. 505).

We posit that the RD framework has the potential to overcome several limitations within the current literature on BM. First, it grounds the BM construct within actions that constitute organisational routines, which in turn underpin the creation and exploitation of BMs. Put differently, it is now possible to understand a BM not so much as an abstract, deterministic and opaque entity or tool, but as something that people enact in their day-to-day practice. Second, the RD framework is consistent with the emergent ‘transformational’ approach in BM research by allowing a re-conceptualisation of BMs from a process-oriented perspective. It emphasises the role of agency, change and dynamics in the enactment, maintenance and modification of BM. Third, from a RD perspective, the ‘model’ aspect within the BM construct can be understood both as a ‘recipe’ embodying “some general principles (e.g. baking, roasting, frying



etc and cooking times and temperature) and as particular details of the ingredients and their assembly for specific dishes” (Baden-Fuller & Morgan, 2010, p. 166). Here, the ‘ostensive’ aspect of the routine captures the general, emergent principle underpinning the BM creation and exploitation, while the ‘performative’ aspect provides the specific details and situated actions which support the content and assembly of actual business models. And fourth, the RD framework emphasises the material and non-material technologies and artifacts (D’Adderio, 2011; D’Adderio, 2014; D’Adderio & Pollock, 2014) which are created and utilised in the production and evolution of BMs, an area which remains so far under-investigated in the BM literature. On this basis, we propose that the RD perspective could offer both a novel approach to theorize BMs and a useful framework for guiding practitioners through the actions and materials required to design, implement and manage BMs within their organisations.

#### 4.2 LINKING ROUTINE DYNAMICS TO BUSINESS MODELS

Grounding BM in the RD framework, we argue, provides opportunities to extend the “Activity Systems” perspective which theorizes a BM as “a system of interdependent activities that transcends the focal firm and spans its boundaries” (Zott & Amit, 2010, p. 216). Building on Routine Dynamics, we can now redefined BMs as *complexes of emergent, situated and interdependent routines involving multiple and heterogeneous actors which allow firms to create, deliver and capture value*. Such a reconceptualization provides us with a novel empirical lens to examine how the set of activities a firm performs may be developed into value creating routines and how these routines are the enacted in practice to generate, sustain and modify a firm’s business model. Put differently, BM are no longer simply understood as yet another “off the shelf” management practice that can be implemented almost as an add-on to existing practices and organizational arrangements in the company” (Saebi & Foss, 2015, p. 202), but as a set of emergent action patterns which shape and are in turn shaped by the organisation.

The RD perspective also allows us to further integrate the diverse theoretical perspectives that currently underpin BM research. In capturing those action patterns which make BM generation tasks potentially more repeatable and reliable, a routine dynamics approach can help capture the emergence of stable yet efficient business models. This includes showing how efforts to develop routines that underpin BMs can enhance the stability of action patterns which in turn may reduce variation between these patterns. This reduction in variation improves the efficiency of the enacted business model. The RD perspective thus can help us account for

“value creation through efficiency” mechanism without invoking TCE.

Furthermore, the ability to capture the differences and dependencies between interdependent actions due to inherent change dynamics offered by the RD approach opens up the potential to capture the processes of generation of BM novelty and innovation (Deken, et al., 2016; Sonenshein, 2016). According to the RD perspective, “routines necessarily involve creativity because actors regularly exercise agency in moving between revising abstract patterns of routines and devising ways to engage in situationally relevant performances of routines” (Sonenshein, 2016, p. 740). In contrast, by emphasising innovative outcomes over the innovation processes, BM scholars have typically neglected the deeper connections between (value creating) routines. our approach links instead to prior research which has uncovered how “proactive, change-oriented efforts by actors” (Deken, et al., 2016, p. 673) can intentionally deploy interdependent organisational routines to generate novel outcomes. Thus explanations for how BM create value through novelty – and can indeed be themselves the locus of innovation - can now be explained through the RD framework.

As mentioned above, the RD framework not only recasts routines in relation to process, practice, agency, and performativity but also sheds new light on the positioning of materiality and artifacts as key aspects in the study of routines (D’Adderio, 2011; Aroles & McLean, 2016). This reframing directs theoretical attention from the socio-materiality *of* resources to the process of resourcing, that is how socio-material aspects might act as or *become* resources (D’Adderio, 2014). Put differently, generating complementary resources requires ‘routine work’ that refers to “actors’ efforts through which they direct routine performances toward their intended outcomes and respond to emerging consequences of earlier routine work” (Deken, et al., 2016, p. 660). Routine work thus helps explain how coordination might occur between the social and the material features of BMs thereby allowing for the emergence of complementarity between resources within BM. This helps us side-step the inherent challenges to the RBT perspective on BM discussed earlier.

Finally, “the idea of relationality implies that we move beyond organizational routines as the unit of analysis and consider relations among routines and networks of routines” (Feldman, et al., 2016, p. 511). This in turn allows us scholars to understand how the development of BM can create value through lock-in. The RD framework therefore can help us account for the SN explanations of BM value creation. this includes capturing how the ostensive/performative duality of routines can be drawn upon to explain how the abstract, cognitive logic of *what* the

BM does might be reconciled with the concrete specifics of *how* this gets done on an ongoing basis.

#### 4.3 SUMMARY

In this section, we have introduced an alternate RD framework and then used it to reconceptualise the BM construct from the RD perspective. In so doing, we have shown how the RD perspective, by reconceptualising BM as complexes of interdependent routines, allows us to integrate previously fragmented theoretical insights from the TCE, SE, RBT, SN and cognitive perspectives. The approach proposed is consistent with the ‘transformational’ approach within BM research while providing new ways of capturing and theorizing the deeper dynamics which underpin BM emergence and change. Overall, this novel approach potentially allows us to provide an integrated, practice based approach to studying and capturing BM generation and evolution.

#### 5.0 IMPLICATIONS AND CONCLUSIONS

Ambiguity and conflicts resulting from the theoretical fragmentation which persists within BM has had an adverse impact on BM research. This has resulted in three specific limitations for research and practice. First, the absence of an integrated theoretical framework has until now obscured the value creation and capture mechanisms within BM. As a result, we still have only a limited understanding of the set of activities that a firm performs and the outcomes of performing these activities. By reconceptualising BM from a RD perspective, it is now possible to examine BM in practice: which routines within BM are important and therefore should be supported, who performs these routines, how they are performed, when they are performed, where (at what level), and what resources are need to perform them (Massa, et al., 2017).

Second, our approach allows us to significantly extend the extant BM research which has called for a shift from ‘static’ to ‘transformational’ approaches to the study of BMs (Demil & Lecocq, 2010; Wirtz, et al., 2016). Since prior BM research was mostly based on a ‘static’ approach that focused on business model choice, till date, we still know very little about the ongoing dynamics often generated by the complex interdependencies between various business model choices while executing a strategy or while innovating (Baden-Fuller & Haefliger, 2013; Zott & Amit, 2013). Our RD framework helps redress some of these shortcomings by

incorporate the change and temporal dynamics within the BM conceptualisation. By bridging research on BM with the study of routine dynamics, the framework could help illuminate how BM “structures establish the context and boundaries for activities and processes associated with resource and capability development and boundary-spanning transaction formation” (George & Bock, 2011, p. 106). Empirical studies could, for instance, deploy the routine dynamics approach to capture those actions and action patterns that might either support or hinder the various business model characteristics within organisations.

Third, the incompatibilities across the various meanings of ‘business’ and ‘models’ within BM research has so far prevented us from gaining insights into the mechanisms for introducing, managing and changing business models within organisations. Since BM within our newly proposed framework are underpinned by organisational routines enacted by multiple actors, routines here act as recipes for generating and managing business models within organisations. By capturing the ‘know how’ aspect of the recipe for creating and managing business models, our RD framework can assist both scholars and practitioners in bridging the current theory – practice disconnect. Our framework, for example, can be used to investigate how routines within BM can be developed into mechanisms that act as levers for duality, and so render stability and change compatible. Such mechanisms can add to BMs flexibility and adaptation potential by differentiating a new business model while simultaneously leveraging synergies from the existing model during BM transitions for strategy or innovation (Velu & Stiles, 2013; Markides, 2013; Chesbrough, 2010).

In conclusion, in this paper we have examined what we believe are some of the ‘theoretical root causes’ for why BM have become “strong on redundancy and weak on theoretical grounding” (Arend, 2013, p. 391; Teece, 2010). We have identified the fragmented insights that result from a lack of integration between the TCE, SE, RBT, SN and cognitive perspective as a major source of theoretical dissonance. We have then outlined an alternate RD perspective and shown how embracing this new framework could help integrate prior insights as well as aid the investigation of previously unanswered questions. In doing so, we have cleared the path for further integrating BM with management research and organisational theory.

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