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Business Model and Strategy: In Search of Dialog through Value Perspective

Modelo de Negócio e Estratégia: Em Busca de um Diálogo a partir da Perspectiva do Valor



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Resumo

O valor é a unidade de análise de um modelo de negócio, e também o principal objetivo da estratégia. Tanto do ponto de vista acadêmico como prático a questão que guia a definição de um modelo de negócio é: como criar, configurar e apropriar valor? As teorias de administração estratégica e de modelos de negócio já realizaram avanços em alguns aspectos do valor, mas apresentam equívocos importantes para responder esta questão, principalmente porque ainda apresentam uma visão estática, focada apenas no conteúdo ou resultado. O objetivo deste artigo é desenvolver uma articulação teórica entre modelo de negócio e estratégia a partir de uma visão dinâmica do valor, baseada na combinação de conteúdo e processo estratégico. Para isso, são incorporadas contribuições de várias teorias do valor, como a econômica, a de marketing, administração estratégica e configuração organizacional. A principal proposição é que o modelo de negócio é uma estrutura emergente, definida a partir da interação entre decisões estratégicas de descoberta e reconhecimento de oportunidades (criação do valor), implementação (configuração do valor) e obtenção de retorno (apropriação do valor).

Palavras-chave: modelos de negócio, criação do valor, configuração do valor, apropriação do valor.

Abstract

Value is the unit of analysis for a business model, and also the main goal of strategy. From both an academic and a practical point of view, the question that guides the definition of a business model is: how to create, configure and appropriate value? Strategic management and business model theories have already progressed significantly in some aspects of value, but present major misunderstandings to answering this question, especially because they still work from a static view of value, based only in the content or result. The paper aims to develop a theoretical articulation of business model and strategy through a dynamic perspective of value, based on the combination of strategy content and strategy process. In order to accomplish this task, it tooks contributions from several fields of knowledge underpinning value, such as economics, marketing, strategic management and organizational configuration. The main proposition is that a business model is an emergent structure, defined through the interplay of strategic decisions for discovering and recognizing opportunities (value creation) but also for implementing (value configuration) and profiting from them (value appropriation).

Keywords: business models, strategy, value creation, value configuration, value appropriation.

JEL Code: L1, D21, M1.

Introduction

As mentioned in the literature on systems modeling (Stermann, 2000), a model is always based on a problem. A survey of many different business model definitions and dimensions (Massa, Tucci, & Afuah, 2017), showed that the issues underlying all conceptual proposals, whether drawn up by pioneering authors (Afuah & Tucci, 2001; Hamel, 2000; Mahadevan, 2000; Timmers, 1998), reference authors (Casadesus-Masanell & Ricart, 2010; Demil & Lecoq, 2010; Osterwalder & Pigneur, 2010; Teece, 2010; Zott & Amit, 2010), or contemporary authors (Wirtz, Pistoia, Ullrich, & Götzel, 2016), are all focused on **how to create, deliver and capture value**.

The question that drives research in business model (BM) is actually the same question entrepreneurs ask themselves. Companies starting up their businesses are not always based on rational decisions, unable to identify clearly the latent value of a product or service, especially new technologies (Chesbrough & Rosenbloom, 2002; Teece, 2010). This spotlights the real face of the market, meaning that products are not material, established *a priori*, as customers want solutions, not merely goods. In some cases, markets may not even exist, such as when radically innovative items are launched. In these situations, companies cannot be valued based on their past performance, as there are no precedents (Teece, 2010).

In the process of solving business model problem, companies do not know in advance what is the value they are creating and even how to configure and appropriate this value. In fact, companies are constantly experimenting in the search of a suitable business model. Since value is not known in advance, even for companies, how can we theoreticians deal with a dynamic perspective of value?

Both BM and strategic management theories have already progressed significantly in some aspects of value (Amit & Zott, 2001; Zollo, Minoja, & Coda, 2018; Zott & Amit, 2010), but present major misunderstandings to answering this question. They still work from a static standpoint where value is treated only from the perspective of the content or result, rather than as a process (Pettigrew, 1992; Van de Ven, 2007).

Although the BM construct has been considered as a solution *per se* to the problem of value creation, configuration and appropriation (Value CCA), the problem-solving process is implicit, even in proposals grounded on standpoints that are more dynamic (Casadesus-Masanell & Ricart, 2010; Chesbrough & Rosenbloom, 2002; Demil & Lecoq, 2010; Foss & Saebi, 2017; Teece, 2010).

Great part of strategic management theory explain value from the perspective of strategy content (strategic positions and competitive advantage), and because of that it addresses only some aspects of value. For instance, in Resource-Based Theory (RBT), value created and value captured are considered as being the same thing (Bowman & Ambrosini, 2000), even in efforts to integrate specialized domains (Zollo et al., 2018).

The restricted and static views of value are overlaid by controversies regarding the relationship between BM and strategy, with some mentions of this as an antecedent (Casadesus-Masanell & Ricart, 2010), a part (Chesbrough & Rosenbloom, 2002; Morris, Schindehutte, & Allen, 2005), a complement of a business model, intended to enhance its performance (Zott & Amit, 2007, 2008), or buttress the sustainability of competitive advantages (Teece, 2010).

Through a content analysis of BM definitions, Morris, Schindehutte and Allen (2005) identify three general perspectives: economic, operational, and strategic. These perspectives follow a hierarchy. The most rudimentary level is the economic and includes decision variables, such as revenue sources, pricing methodologies, cost structures, margins and expected volumes. The second level is operational and contains variables related to internal process and design of infrastructure that enables the firm to create value, such as: production or service delivery methods, administrative processes, resource flows, knowledge management, and logistical streams. And third, the strategic level, which includes decision variables related to the firm's market positioning, interactions across organizational boundaries, growth opportunities and competitive advantage and sustainability.

From a dynamic perspective of strategy making, all three levels pointed by Morris et al. (2005) are intertwined. As proposed by Burgerlman, Floyd, Laamanen, Mantere, Vaara and Whittington (2018) dynamics in

strategy work comes from the interplay of **actors and actions** taking place across organizational boundaries and **macro-level** widely diffused practices, but at the same time going down to the **micro-level** of activity episodes inside firm-level process.

The objective of this paper is to develop a theoretical articulation of BM and strategy through a dynamic perspective of value, based on the problem-solving process itself, and not only decision variables. It follows a dynamic view of strategy, based on the combination of strategy content and strategy process.

Based on the pillars of strategy making, the logical reasoning of the dynamic view of value proposed here is: **multiple actors**, with **interchangeable** roles, exploring **multiple opportunities** across **multiple bases** of activity, seeking **multiple revenue** sources. All the actors involved in the value process make up a whole business ecosystem (entrepreneurs, employees, suppliers, investors, clients and communities) that provides the execution of activities inside and outside the company. This open and systemic perspective of value expands the opportunities (products, services, information, network and so on), the way to implement and to profit from them (subscription fees, advertising, sponsorships, and revenue sharing with sales and service partners).

Together, all actors act through a **learning** process of trial and error searching to solve the problem of Value CCA. Both value creation, configuration and appropriation are **path dependent** and based on a **systemic** perspective of strategy process. In this regard, the main proposition defended here is that BM is an emergent structure, defined through the interplay of strategic decisions for discovering and recognizing opportunities (value creation) but also for implementing (value configuration) and profiting from them (value appropriation).

The conceptual framework took contributions from several fields of knowledge underpinning value, such as economics, marketing, strategic management and organizational theories of organizational configuration. Each contribution is evaluated through a process approach lens, i.e., value creation rather than value created, value configuration rather than value configured, value appropriation rather than value captured.

Theoretical Background

There are two different views about value in the literature, ranging from economics and marketing to strategic management: the value-labour and value-utility. From the perspective of value-labour, value is explained by the amount of work incorporated into the goods production process. By the standpoint of value-utility, the value source is the satisfaction of human needs.

In economics literature, the classical economists consider that value relates to labour, while for their neoclassical colleagues value is itself subjective, based on customer perceptions of the usefulness of the product on offer. Subsequently, industrial organization economists employed a combination of production costs and utility: for them, value is the outcome of the producer's economic (opportunity) costs combined with consumer willingness to pay (Pitelis, 2009), which means that "only where a customer perceives superior consumer surplus accruing will the customer buy that particular product" (Bowman & Ambrosini, 2000, p. 4).

Marketing literature follows the value-utility perspective. For marketing authors value creation relates to customer perspective, i.e., the way a customer judges value, be it from a cognitive standpoint of benefits and sacrifices (Zeithaml, 1988), or through usage consequences (Woodruff, 1997) and the value outcomes of consumer experiences (Holbrook, 1999).

Strategic management and BM literature combine value from a firm's viewpoint with a customer perspective. In fact, as presented next, both customer perspective (utility or consumer experience) and organizational firm's view point (activities, products and services offered) are necessary to understand a dynamic view of value in business model.

The review of literature of value creation integrates the RBT variant (Penrose, 1959), entrepreneurship (Blank & Dorf, 2012; Eisenmann, Ries, & Dillard, 2013), value co-creation (Vargo & Lusch, 2004), value network (Eisenmann, 2007) and stakeholder strategy (Zollo et al., 2018).

Value configuration integrates the literature of value chain activities (Kortmann & Piller, 2016; Porter, 1985; Stabell & Fjeldstad, 1998) and organizational boundaries - transaction costs (Williamson, 1991), resources (Penrose, 1959) and complementary assets (Teece, Rumelt, Dosi, & Winter, 1994) – together with theories of market external coordination (Jacobides, Knudsen, & Augier, 2006; Richardson, 2002) and internal coordination of the organizational structure and stakeholder system (Kaplan & Henderson, 2005; Zollo et al., 2018).

Value appropriation is based on the literature of strategic management of firm's user network (Eisenmann, 2008); strategic management of innovation, which includes complementary assets and appropriability regime (Pisano, 2006; Teece, 1986) and the asset appreciation (Jacobides & Winter, 2007); stakeholder value distribution (Lieberman et al., 2017) and feedback (Zollo et al., 2018); and strategic repositioning through corporate coherence (Teece et al., 1994) and architectural advantages (Jacobides et al., 2006).

Value creation

In BM model literature, the notion of value creation is presented in the concept of value proposition. For some authors, value proposition “describes the bundle of products and services that create value for a specific customer segment” (Osterwalder & Pigneur, 2010, p. 28). For others, value proposition is “the work performed by the company to solve a fundamental problem for a customer in a specific situation” (Johnson, Christensen, & Kagermann, 2008, p. 52).

For strategy literature, the focus of value creation must be on value at organizational level, “namely on activities, products and services engendered by organizations in market economies, which are perceived as worthwhile by potential beneficiaries, such as consumers, suppliers or competitors” (Pitelis, 2009, p. 1118).

In the Resource Based Theory (RBT) value creation variant (Foss, 1999), based on the seminal work by Penrose (1959) on corporate growth, the singularity of each individual company lies in the distinction between resources and the possible services that can be obtained through the use (deployment) of each resource. It is the services that resources can render that count for creating outstanding corporate performances, i.e., it is the way resources and capabilities are combined that provides competitive advantages.

According to RBT, since there is uncertainty about the future value that resources can create, only firms with accurate expectations about the revenue access to these resources and that actually acquire them can generate economic profits. In this regard, expectations are likely to be more accurate when firms control valuable, rare, inimitable, and non-substitutable resources developed overtime (Barney, 1986)

Above all, human resources, notably entrepreneurial labour, are the source of differential profits among firms (Bowman & Ambrosini, 2000). The essence of entrepreneurial labour is knowing how to deploy use values of inputs to create new use values. This skill of entrepreneurial labour consists of a “clear understanding of a business opportunity, and knowing how to exploit it” (Bowman & Ambrosini, 2000, p. 7). However, “in all firms there are probably elements of explicit and tacit entrepreneurial behavior since it may not be the result of a consciously developed strategy” (Bowman & Ambrosini, 2000, p. 7), i.e., a tacit process, not consciously known to even the management.

Recent literature on entrepreneurship shows that the only thing a brand-new firm knows is some vague notion of value proposition that needs to be tested (Eisenmann et al., 2013). The way a firm decides to offer a value proposition vis-à-vis its rivals on the market characterize its competitive strategy: competing through differentiation or cost leadership (Porter, 1985). It is the “ability to deliver a superior value to a large enough customer group, and at a low enough cost relative to the price” (Lanning & Michaels, 1988, p. 3). that guarantees a sustainable competitive advantage that ensures adequate returns and growth. So a superior value is defined compared to competing alternatives

But identifying a superior value proposition is the most difficult task: suppliers must engage in customer value research in order to gain the insights needed to construct and create points of difference and parity (Anderson, Narus, & Rossum, 2006). In fact, before finding a solution – that outperforms competitors or not – when it comes to new product or services, entrepreneurs first strive to identify the actual problem (Blank & Dorf, 2012).

In marketing literature, the combination of two sources of value creation is the basis of any value proposition: (a) goods and services, and (b) relationships between buyers and sellers (Lindgreen & Whynstra, 2005). This aligns with the value co-creation concept (Vargo & Lusch, 2004) which is based on the value of products as well as relationships (Gronroos, 2011; Lindgreen & Whynstra, 2005; Lindgreen, Hingley, Grant, & Morgan, 2012), with a set of indicators already drawn up (Ehret, Kashyap, & Wirtz, 2013).

This notion of participating and interchangeable roles played by suppliers and consumers in value creation leads to a reciprocal value proposition where communicative interactions between networking firms and consumers are critical for discovering what customers need and what are the possible solutions (Ballantyne, Frow, Varey, & Payne, 2011; Truong, Simmons, & Palmer, 2012).

The interdependence on value creation is crucial in value-network, or businesses conducted through platforms (Eisenmann, 2007), where there is little value in isolation (Katz & Shapiro, 1994). The value of a network is proportional to the number of its users (Vaz, Nogueira, Rodrigues, & Chimenti, 2013). Value use extends beyond end-consumers and developers must

think of a product not just in terms of something that someone will use but as a platform that other products and services might be able to exploit. Moreover, users care only about how the products fit in with and enhance the systems of which they are a part (Iansiti & Levien, 2004, p. 9).

Therefore, although value creation process depends fundamentally on entrepreneurial behavior, it is nevertheless iterative. All actors must be seen as resource integrators in shared exchange systems, defined by some authors as business ecosystem (Iansiti & Levien, 2004), or a service ecosystems (Vargo, 2011), or even stakeholder system (Barney, 2018; Frow & Payne, 2011; Lieberman, Balasubramanian, & Garcia-Castro, 2018).

The relationships in a business ecosystem enhance value through: (a) simplifying tasks connecting network participants; (b) creation of new products by third parties that are more efficient; (c) innovation and product development opportunities provided by a variety of third-party organizations; and (d) reduction of risks and uncertain conditions (Iansiti & Levien, 2004).

The concept of the business ecosystem is very apposite for value creation in virtual markets, where economic transactions are structured and conducted through open networks (Amit & Zott, 2001), and in the sharing and circular economy – where consumers use products instead of buying them or sell their used products to other consumers (Kortmann & Piller, 2016).

As pointed by Amit and Zott (2001), value creation in virtual markets, which is based on the fixed and wireless internet infrastructure, involves new opportunities arising from multiple sources: (a) efficiency from faster, simpler and more informed transactions; (b) complementarities between products and services along value chains (vertical and horizontal); off-line and on-line assets; and technologies; (c) customer retention (lock-in) provided by network externalities, trustful relationships, product customization and personalization, information and services; (d) novelty from new ways of conducting and aligning commercial transactions, connecting previously unconnected parties and creating entirely new markets.

According to Kortmann and Piller (2016), in the sharing and circular economy value creation goes beyond transforming resources into customer value. Besides being a manufacturer, a firm can chose to be a: (a) servitizing manufacturer (focal firm offering products and services to consumers); (b) rebound manufacturer (focal firm offering products and services to consumers who offer re-acquired products); (c) co-creating manufacture (focal firm along with consumers and suppliers together providing products to consumers); and even (d) co-creating service provider (focal firm along with consumers and suppliers together providing products and services to consumers).

Due to these new opportunities, understanding the value creation process requires a systemic view that encompasses the many different stakeholders involved in the process. A stakeholder is defined as “any group or individual who creates and captures economic value in its interaction with the firm” (Garcia-Castro & Aguilera, 2015, p. 138). The stakeholder system includes all the providers of production factors (investors, employees, communities) in the entire production chain. From this perspective, as proposed by Zollo, Minoja and Coda (2018), a competitive advantage must be conceptualized in terms of customers (the extent to which customer needs are comparatively satisfied) and stakeholder advantages (extent to which stakeholder interests and expectations are comparatively satisfied). This is particularly true in entrepreneurial situations, where an entrepreneur might not even have the resources to put idea into practice, faced by the challenge of convincing others about this idea (Jacobides & Winter, 2007), especially stakeholders such as debtholders and shareholders, that provide resources with the potential to generate economic profits (Barney, 2018).

Summarizing the theoretical contributions of the literature to value creation, the following definition guides this paper:

Definition 1. Value creation means the process of discovering and recognizing opportunities through analyzing the surrounding context of business ecosystems, together with their internal resources and capabilities, pursuing superior value delivery through customer and stakeholder advantages. This includes: (a) definition of products/services (finished, semi-finished, brokered or re-acquired); (b) identification of a firm’s user network and the way complementary products or services enhance the value of its products or services; (c) identification of potential customers and their value perception for creating points of difference and parity from competitors; (d) selection of potential resources for creating new use values; (e) selection of potential stakeholders in a value network that will contribute to value creation.

Value configuration

For some business model authors, value configuration relates essentially to value chain (Osterwalder & Pigneur, 2010). It describes the layout of one or several **activities** (based on resources and capabilities) performed by players in order to provide a value proposition (Osterwalder & Pigneur, 2004). For others, it is the way **resources** are combined and partner relationships are structured that supports value propositions (Demil & Lecoq, 2010). Adding on, for some authors business model is defined by activities and resources and how they are acquired and linked together in the **governance** model (Amit & Zott, 2001; Zott & Amit, 2010) and in the **organizational structure** (Camisón & Villar-López, 2010).

As defined by Lanning and Michaels (1988), a business is *per se* a value delivery system, i.e., a system of value chains (Porter, 1985). The way each firm positions itself in a production chain defines different value systems. But, what is a better position in value system?

Here in this paper it is proposed that the better position in a value system is the result of how strategic choices regarding value creation is implemented. It is based on an integrative approach of strategy making where the firm is seen not only as a manager of **resources** (Penrose, 1959) and **contracts** (Williamson, 1991) but also of activities (Richardson, 1972) and **complementary assets** (Teece et al., 1994). All stakeholders in the value system are connected through external market coordination of **co-specialized assets** and **activities network** (Jacobides et al., 2006) and internal coordination of **organizational structure** and **stakeholder system** of commitment and compensations (Zollo et al., 2018).

In this regard, value configuration may be grounded on the theory of value chain configuration (Porter, 1985; Stabell & Fjeldstad, 1998) and on organizational boundary theories (Santos & Eisenhardt, 2005), i.e., describing the ways activities are organized internally (organizational structure) and externally (governance structure).

The value chain is crucial for value configuration because, as defined by Porter (1985), this breaks a company out into strategically relevant activities in order to understand the behavior of costs and the sources of comparative advantages, whether current or potential.

According to Porter (1985), there are five generic primary activities (inbound logistics; operations; outbound logistics; marketing and sales; service) and four generic support activities in the value chain (procurement, technology development, human resource management and firm infrastructure). However, as proposed by Stabell and Fjeldstad (1998), these are activities typical of a traditional value chain, based on a long linked technology, where value is created by transforming inputs into products. This configuration does not apply to service activities where the cycle of transforming inputs into products is heavily dependent on customer contacts. In such cases, there are two more value chains: value shop - where value creation logic is based on solving a problem for a customer or client, with a wide variety of activities tailored to the problem in question; and value network - where value related to multiple customer connections, with simultaneous mediation activities promote interconnected mediation networks.

Recent studies on value chain configurations identify another hybrid form of value chain configuration in industrial markets: package logic, based on offering customization projects (Johansson & Jonsson, 2012). In fact, in the sharing and circular economy, the conventional forward value chain turns into a closed-loop value chain, comprising activities related not only to the production stage, but also consumption and circulation stages (Kortmann & Piller, 2016; Lüdeke-Freund, Gold, & Bocken, 2019).

The movement of value creation from within a firm to the outside world promotes an open-plan business model based on new forms of horizontal collaboration – such as alliances and platforms – along the entire extended product lifecycle (production, consumption and circulation). Examples of such alliances include recycling alliances, sharing-platform operators and circulation-platform operators (Kortmann & Piller, 2016).

Decisions of buying in the market, setting up alliances or organizing internally (hierarchy) or externally (alliances or market) define substantial differences among business models, e.g. the Airbnb home-sharing system compared to traditional hotels.

From the transactions standpoint, deciding whether or not to integrate a particular transaction within a firm's own **boundaries** depends on **transaction costs** related to: (a) drafting and negotiating contracts; (b) measurement and inspection of property rights; (c) performance monitoring; (d) organization of activities; (e) inefficient adaptation costs to non-economic system changes. These costs vary according to three dimensions of transactions: specificity, frequency and uncertainty. In a reduced-form analysis, asset specificity, due to physical or site specificity features, could lead to parties becoming vulnerable to opportunistic behavior and, in order to safeguard such assets, firms might have to choose to integrate (Williamson, 1991).

Transaction costs theory is a very useful and dominant theory of governance choice. However, efficiency (minimizing governance costs) is not enough to explain organizational boundaries. As pointed out by Santos and Eisenhardt (2005), the “efficiency conception is most applicable in industries characterized by intense price competition and stable structure” (p. 493). In fact, **resource portfolio** and **market power** are very helpful in understanding vertical and horizontal scope, especially when a firm's goal is growth and its environment is dynamic.

From the resource portfolio standpoint, **growth** is the main reason to expand a firm's boundaries, be either in the same market (vertical scope) or nearby domains (horizontal scope). According to Penrose (1959), diversification strategies are defined according to a firm's specialization area, which includes both technological and market bases. Diversification within the same area of specialization (correlated diversification) includes expansion of production using the same technological and market base. But there are another three strategies that involve a departure from the firm's specialization (non-correlated diversification): (a) entry into new markets with new products using the same technology; (b) expansion in the same market with new products based on a different technology; (c) entry into new markets with new products, also based on a different technology.

There are always incentives to explore potential services associated with resource portfolios, stepping up **scale and/or scope**, but there are also **defensive** objectives, such as control of intermediate products or blocking newcomers eager to enter the industry. These strategies may be implemented through vertical integration (backward and forward) or acquisition (Penrose, 1959). However, with the advancement of the division of labour,

increasingly specialized firms are dependent on complementary capacities in the development of their activities (Richardson, 1972). These activities may be related to the supply of both inputs and **complementary assets**.

As defined by Teece, Rumelt, Dosi and Winter (1994), complementary assets involve the specific functions of production, marketing, research and development, such as distribution systems, manufacturing plants and equipment, and complementary technologies. They are “built to support the firm’s prior activities”, but “rarely are such assets completely specialized to a particular product”, they “may have other uses as well” (Teece et al., 1994, p. 20).

According to Teece et al. (1994), firms grow more diverse through adding “activities that relate to some portion of existing activities” (p. 10). The future activities of firms depend heavily on “what they have done in the past” (p. 16). The firm’s evolutionary path is defined by **technological opportunities** and position in **complementary assets** but constrained by past and present activities. The more technological opportunities and complementary assets, the wider the evolutionary path. So a wide path favors diversification, while a narrow path favors specialization and vertical integration. Converging evolutionary paths foster networks.

This notion of path dependence imprints a dynamic perspective on firm’s boundaries, which includes the **capacity to learn** and the **learning environment**. With fast learning, firms perform better and faster in all organizational forms: diversified, specialized and vertically integrated, network, conglomerate or hollow corporation. But “if many aspects of the firm’s learning environment change simultaneously, the ability to ascertain cause-effect relationships is confounded because cognitive structures will not be formed and rates of learning diminish as a result” (Teece et al., 1994, p. 17).

Even if organizations possess resources, they may choose not to deploy them, i.e, neither internalizing nor allocating them into new product/market domains. In fact, scope choice is a matter of strategic **flexibility**, in order to enhance adaptability (Santos & Eisenhardt, 2005).

As pointed out by Richardson (2002), flexibility comes with the development of intermediate products in the division of labour. This facilitates market coordination and promotes **dynamic efficiency**, since firms are able to respond to profit opportunities with **minimal delays** and **risking** no more than least possible amount of resources. This is especially true in start-ups.

There are various forms of partnership solutions, based on long-term contracting, closer to market transactions, such as licensing and franchising (Zollo et al., 2018). The use of contractual mechanisms to quickly assemble diverse capabilities for the development and sale of a particular product is very common in start-ups. Sometimes entrepreneurs choose to commercialize the idea alone and outsource the final stage, or commercialize new final product method where input comes from either external or internal sources (Jacobides & Winter, 2007). This constitute a hollow corporation However, this is a viable strategy only in a weak selection environment, with rich technological opportunities and steep learning curves, as “when the contracts terminate, the firm’s ability to deliver value evaporates” (Teece et al., 1994, p. 20).

The choice of organizational boundaries reflects internally on **organizational structures** (Santos & Eisenhardt, 2005), including standardization, rules and regulations, formal communications and tight controls (Mintzberg, 1979). Vertical integration demands hierarchical and very complex organizational structure. In contrast, hybrid governance structure, based on alliances and partnerships, demands lean decentralized organizations.

Organizational structure also reflects competitive strategy. As proposed by Miller (1986), organizational configuration is determined by internal harmony among three aspects: strategy, structure and context (environments and industries). A simple structure, with power centralization at the top and low level of formalization and specialization, is used by small firms generally pursuing a niche market or a differentiation strategy, typically exists in highly competitive environments with moderate uncertainty. With formal rules and tight controls, machine bureaucracy is more common in highly concentrated and mature industries, where strategic options are often limited to marketing differentiation and cost leadership. In contrast, organic structures with

flexible structures that allow for collaboration among specialists are ideal for performing complex tasks in contexts of high dynamism and innovative differentiation.

The combination of strategy, structure and context proposed by organizational configuration literature (Miller, 1986) contributes to a dynamic view of value configuration. However, it is still based only in content. From the perspective of strategy process, organizational configuration is defined by social interaction model in a recursive manner (Bulgacov, Santos, & May, 2012) through direct and dialectic interactions among the parties (firms, departments, groups and individuals) and their respective roles (Dejgaard, 2001). It is the result of an emergent process from the basis of the organization, following a balance between **efficiency** and **flexibility** (Cohendet & Simon, 2016; Santos & Eisenhardt, 2005).

As stated by Jacobides, Knudsen and Augier (2006), flexibility, or mobility, defines an **architectural advantage**, i.e., what proportion of the complementary assets are in the value chain and how easy it is to replace them. Architectural advantage is a broader concept of co-specialization that encompasses both industry-level and firm-level architectures of **co-specialized assets and network of activities**.

The architectural advantage defines

a research program on the architecture and design of organizations, which should be able to account for how the division of labour within and across organizations emerges and also explain the ways in which this division of labour affects both productive capabilities and dynamic capabilities (Jacobides et al., 2006, p. 153).

As defined by Helfat et al. (2007), dynamic capability is “the capacity of an organization to purposefully create, extend, or modify its resource base” (p. 4). An integrative approach of dynamic capability includes the set of behaviors and skills, routines, processes and governance mechanisms of learning and knowledge focused on change and innovation (Meirelles & Camargo, 2014). In this regard, the literature of dynamic capability is very close to value configuration and reconfiguration.

From a process perspective, resources and partners are not known in advance (Deken, Berends, Gemser, & Lauche, 2018). This is the result of a gradual and dynamic process of learning related to value configuration. Learning is what guides entrepreneurs in consolidating their strategies but also, in established firms, to renew them.

Stakeholder involvement in feedback and learning processes is part of an integrative approach to strategy making and the key to understand value configuration and reconfiguration. As proposed by Zollo et al. (2018), the stakeholder strategy consists of

the set of proposals that the firm, explicitly or implicitly, makes to its stakeholders - in terms of compensation, personal development, financial returns, support for local community development, and so on - in return for their contributions, their commitment, and their support (p. 4).

A firm’s social strategy, defined at corporate level, is successful to the extent that it gives rise to cohesion, trust, and satisfaction of and among firm’s stakeholders” (Zollo et al., 2018, p. 4). As proposed by Kaplan and Henderson (2005), commitment to appropriate behavior in new line of business request credibility of relational contracts, based on a mix of cognitive history and experience of the firm. Therefore, the adoption of a stakeholder-strategic decision depends on a firm’s stakeholder culture or core values (Zollo et al., 2018).

Summarizing the theoretical contributions of value chain, organizational boundaries, and organizational configuration literature, this paper proposes that:

Definition 2. Value configuration means the process of implementing opportunities through articulating resources and activities internally and externally in search of a dynamic efficient value system, according to the organization’s evolutionary path. It includes: (a) decisions on value chain configuration (transformation, service or closed loop); (b) decisions on organizational boundaries (market, hierarchy or hybrid form) of co-specialized

assets and activities network; (c) decisions on internal coordination mechanisms in organizational structures (function distribution, centralization and formalization levels); (d) decisions on stakeholder systems of commitments and compensations shaped to organizational cultures or values.

Value appropriation

As stressed by Bowman and Ambrosini (2000) the value created in a production process can be realized only when the product is exchanged, meaning that when a sale is made, the value perceived by customers turns into value captured by producers.

From the IO standpoint, value capture is explained by “monopoly rents, given the potential value creation encapsulated by the cost and demand curves” (Pitelis, 2009, p. 1119). Expressed in prices above competitive rents, monopoly rents are defined by **market entry barriers** such as cost advantages (control of production factors, process production methods, equipment, qualified work forces, managerial capacities and so on), economies of scale and consumer preferences for the products of incumbent firms. This notion guides strategy theorists such as Porter (1985), who includes not only potential competitors as determining factors for profits, but also bargaining power with customers and resource suppliers. Value capture determinants are based on comparisons made by customers between the firm’s product with others made by its competitors, as well as comparisons by resource suppliers with alternative buyers of their resources.

From the Resource Based Theory (RBT) perspective of internal determinants, value appropriation is also a concept related to competition or bargaining through disputing **control over some useful entity** – “a patent, a new process, a unique organization, special human capital assets, location” (MacDonald & Ryall, 2004, p. 1319). The same prevails in marketing authors. As stated by Burkert, Ivens, Henneberg and Schradi (2017) value appropriation is “the degree to which a firm can capitalize on this advantage, i.e. to what extent it can extract value based on its competitive position” (p. 194).

Reflecting a combination of IO and RBT literature, in business model literature value appropriation relates to **profits**. As stated by Hamel (2000), the profit generation potential of a business model is related to **efficiency** (consumer benefits outweighing production costs); uniqueness compared to the **competition**; **appropriateness** (adaptation of business model components to goals); and **profit accelerators** (assured monopoly, adjustment to market conditions and development of skills for fast capitalization).

In fact, the theoretical grounds for value appropriation have not been explored in any great depth, due partly to the fact that value capture discussions are still incipient. As stated by Teece (2010), the traditional model of capturing value, consolidated into a set of organization practices and sales strategies, is gridlocked. In contrast to the industrial era, when economies of scale underpinned value capture, many different channels can now be explored in the information technology age, delivering customized new services and new information without necessarily charging for this personalization.

Competition is not enough to assure appropriation. In a network economy, value appropriation requires **strategic management of a firm’s user network** (Eisenmann, 2008; Eisenmann, Parker, & Van Alstyne, 2011). Multiple revenue sources and a wide variety of value appropriation mechanisms are being developed, such as sign-up fees, advertising, sponsorships and revenue-sharing with sales and services partners. The impacts of information technology appear not only in revenue structures, but also in costs: for example, cloud computing and storage transforms fixed costs into variable expenditures (Teece, 2010).

From the perspective of architectural advantage (Jacobides et al., 2006), not only user network but all the network of activities must be considered in value appropriation. Evaluating co-specialized assets and network of activities supports decision on organizational growth and configuration of organizational boundaries.

The theoretical grounds for value appropriation need more than a vision of competition and bargaining power, notably when some radically innovative item is launched targeting a market may not even exist. Sometimes companies must focus not only on capturing a part of some exogenously given value; instead they must reinvent

value (Massa et al., 2017). In cases such as this, technology has only a latent value (Chesbrough & Rosenbloom, 2002).

Profits from **innovation** must be part of value appropriation analyses in business models. As stated by Teece (1986), innovators often fail to capture economic returns on their innovations because they lack strategic management of complementary assets; an entire bundle of specialized and co-specialized assets is needed, such as distribution networks and even manufacturing facilities. A company with a novel value-creating business model sustains its initial dominance only through a strategy of appropriate vertical integration and complementary **asset positions**, given the appropriability regime (legal instruments and nature of technology and knowledge).

When the appropriability regime of innovation is weak, the decision to integrate is the better solution. This is especially true for large firms that already have the relevant assets within their boundaries (Teece, 1986). But this is not the case with small firms, especially at the beginning, where other factors into entrepreneurial calculations, such as cash constraints and potential wealth from asset appreciation (Jacobides & Winter, 2007).

Value capture based on only economic profits does not explain strategic choices in newly-appearing fields where “the criterion for optimization is the entrepreneur’s final cash inflow. This differs from economic profits brought in through operations, as it includes **appreciation or depreciation of assets** held during the period” (Jacobides & Winter, 2007, p. 1221). Entrepreneurs may want their ideas to become “more widely recognized” (Jacobides & Winter, 2007, p. 1220). In this situation, “potential wealth from asset appreciation may more than compensate lost profit from intensified competition” (Jacobides & Winter, 2007, p. 1220).

Value appropriation of innovation depends not only on complementary assets. As stressed by Pisano (2006), the strategic choice also extends to the appropriability regime. It is possible to act to **strengthen and weaken the appropriability regime**. Open software and other forms of intellectual property-sharing in other industries show that appropriability has not always related to strong intellectual protection. Exclusive focus on value appropriation may prevent value creation. In this regard, what is more interesting: “to keep the biggest part of a potentially shrinking pie, or a modest part of a growing pie?” (Jacobides et al., 2006, p. 1206).

From a dynamic perspective, value appropriation is connected to value creation and configuration. Value appropriated is the outcome of the joint effects of multiple strategic decisions, defined in value creation and configuration processes. As a process, value appropriation consists essentially of **learning**, which means, it is a process of trial and error, feedback and evaluation.

It is through the value appropriation process that firms evaluate all outcomes and synergies between value creation and configuration, balancing out inconsistencies, whether related to corporate coherence (Teece et al., 1994) or stakeholder compensation systems (Zollo et al., 2018). If there is fine-tuning, with a through a strategic decision looking ahead to a new value cycle, firms may decide to expand the virtuous value cycle into another round, or could opt for outsourcing.

From the corporate coherence standpoint, growth is the most challenging decision for embryonic, small and even large businesses. Fine-tuning pursued through earlier value cycles does not operate so well in future expansions, especially when growth is based on non-correlated diversification strategies, i.e., new markets and new technology bases (Penrose, 1959), since they require new resources and capabilities. This means that learning is a key factor for corporate growth.

In order to capture performance feedback quickly, ensuring prompt identification of successes and failures, enterprises need to set up learning mechanisms and develop a “corporate culture that identifies, supports and rewards learning” (Teece et al., 1994, p. 16).

As pointed out by Zollo et al. (2018), the degree of satisfaction of a given stakeholder for the value received affects not only commitments and support for implementing strategic decisions, but also influences the magnitude and quality of contributions to the inventory of corporate resources and capabilities. There are a number of feedback effects linking performance outcomes with strategic choices, which are more synergistic or conflicting. In this regard, there are more conflicts in the implementation of cost leadership than differentiation strategies,

triggered largely by the quest for production efficiency wage renegotiation, workforce downsizing and dropping local subcontractors in order to outsource more cheaply, etc.

Through data collected from financial statements, Lieberman, Balasubramanian and Garcia-Castro (2018) identify that stakeholders (customers, employees, suppliers and government) can gain even if there is no value creation. Although there are substantial production-side gains, firms can decide whether or not to pass cost-savings on to customers through lower prices, or might benefit managers and other employees through incentives, bonuses or higher wages. In this regard, value distribution requires a broader view of profits, encompassing wages, capital stock, tax payments and, of course, output prices (benefits for consumers).

Summarizing theoretical contributions from the fields of economics, strategic management, entrepreneurship and innovation management, the following definition of value appropriation appears:

Definition 3. Value appropriation means the process of learning through evaluation of feedbacks effects linking performance outcomes with strategic choices, walking the fine line between value creation and value configuration. This includes (a) appraising competitive strategies in terms of potential competitors and user networks (architectural advantages of co-specialized assets and activity networks); (b) appraising strategic positioning in innovation through asset positions, appropriability regime and price asset appreciation (or depreciation); (c) definition of value distribution among stakeholders; and (d) assessing strategic positioning in new value cycles by evaluating corporate coherence and stakeholder feedback and support

Cycle of Value and Business Model Development

The business model construct is supposed to be the answer to the problem of value creation, configuration and appropriation (Osterwalder & Pigneur, 2010). However, from a process perspective of value, a business model is a problem-solving construct *per se*.

From this standpoint, the proposition defended here is that strategic decisions are not only guidelines for discovering and recognizing opportunities (value creation) but also for implementing (value configuration) and profiting from them (value appropriation). These decisions are all jointly constructed through interactions with multiple stakeholders. As such, the business model is an emerging structure resulting from a continuous cycle of value (Figure 1).

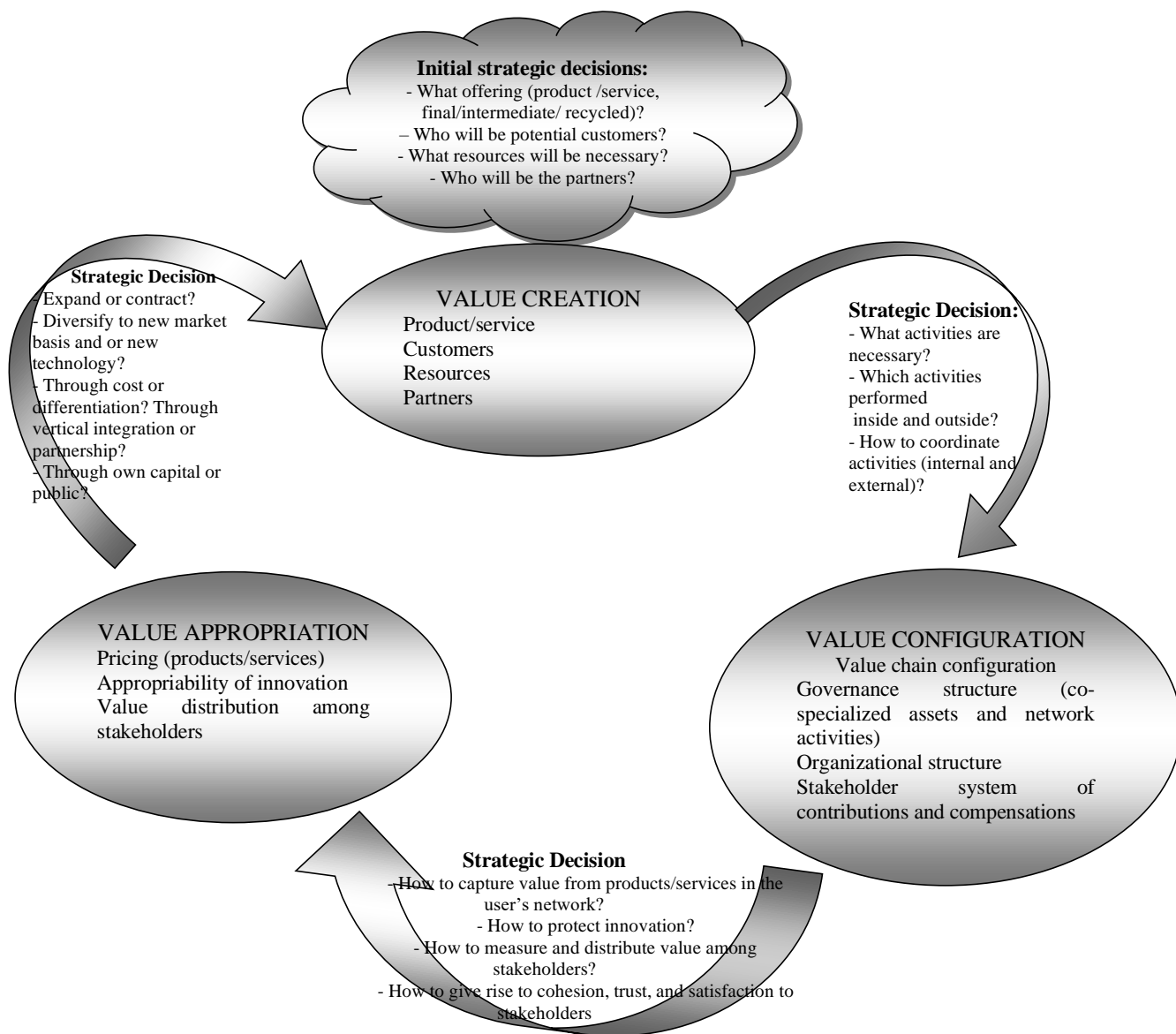


Figure 1. Cycle of Value Creation, Configuration and Appropriation

At the start of the cycle of value, the main stakeholders are the entrepreneurs themselves. At this stage they face basic challenges related to the identification of opportunities such as: what to offer? (product or service, finished or semi-finished?), who will buy what? What resources are needed? Who will be the partners? How to coordinate internal and external relationships with stakeholders? They must also take decisions on value appropriation, which includes not only price definition but also innovation appropriability and the stakeholder system of contributions and compensations.

It is through the interplay of strategic decisions on value creation, configuration and appropriation that a business model is defined and renewed over time. From previous strategic positions, the entrepreneurs test their strategies in practice, make adjustments and come back starting a new cycle again. In this sense, BM construct is an emerging structure of an organization found at several stages of its life cycle, during either its earliest days as a start-up (Blank & Dorf, 2012) or at subsequent stages of transformation and reconfiguration of resources and capabilities (Helfat & Peteraf, 2003). There is no pre-defined order here. The business model is subject to variations resulting from events related to value creation, configuration and appropriation over time. These events vary according to business life cycles: structuring, growth, expansion or stagnation.

This dynamic view of value needs methodological alternatives, such as strategy as practice (Jarzabkowski, 2004) and process-based theory (Van de Ven, 2007), especially from a strong perspective (Langley & Tsoukas, 2017). From this perspective, strategic decision in organizations is a recurring cycle of persons, activities and circumstances which may be captured through a longitudinal text analysis (Kaplan & Orlikowski, 2013; Langley, Kakabadse, & Swailes 2007).

Conclusion

The main question posed at the beginning of this paper was: How do companies find solutions to the problem of value creation, configuration and appropriation? The answer is not that obvious or simple. If it were, many more people would be ritual ready. In fact, as entrepreneurship literature stress, business model reflects a process of discovering what value to create and how to offer it to customers in a profit way. In this regard, the framework proposed here is a first step toward a comprehension of the real strategic management of business model, in which entrepreneurs and stakeholders jointly entails activities that shape value cycles.

When articulated from a process standpoint, different contribution theories (economics, strategy, marketing, entrepreneurship and organizational), offer clues to activities involved in value creation, configuration and appropriation. But much still remains to be done in business model research into each of the strategic decisions on value creation, configuration and appropriation, together with their alignment, since the ways in which they are interconnected underpin value cycle sustainability.

How far are companies from a suitable business model that ensures value creation, configuration and appropriation are well interconnected?

The interactions in the making of strategy involves paradox (Hargrave & Van de Ven, 2017), especially in value appropriation strategies (Lauritzen & Karafyllia, 2019). Finding the most suitable model is not an easy task. In fact, business history shows that companies facing this challenge cannot quickly identify the solution, or even pinpoint the problem, particularly start-ups embedded in dynamic, complex, uncertain, and possibly unknowable contexts.

Process research includes not only historical analysis but also the emergent and development process perspectives, which are based on present circumstances that connect past and future construction and extrapolation (Kaplan & Orlikowski, 2013), as well as interventions in the present to achieve a desired future outcome (Van de Ven & Sminia, 2012).

This approach provides an understanding of the sequence of many different events in the course of the company's history, indicating whether specific mutations have been continuous, progressive or automatic, or if they were triggered by sudden events that catapulted the firm head-over-heels on to the next stage in their development (Langley et al., 2007). In this regard, from a practical perspective, process research could be very helpful to startups in the structuring of value cycle, but also to growing companies in the scalability process and the ongoing changes of practices of creation, configuration and appropriation of value. From a theoretical perspective, process studies of change in organization and management (Langley, Smallman, Tsoukas, & Van de Ven, 2013) could be very helpful to comprehend business model innovation (Cavalcante, Kesting, & Ulhøi, 2011), shedding light also on dynamic capability literature (Teece, 2018).

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