External Drivers For Business Model Innovation For Sustainability: An Institutional Theory Perspective.

Martinez G, Renukappa S, and Suresh S

1 PhD researcher, Faculty of Science and Engineering, University of Wolverhampton, Wulfruna Street, Wolverhampton. England, WV1 1LY
E-mail: g.martinezvolquez@wlv.ac.uk

2 Senior Lecturer, Faculty of Science and Engineering, University of Wolverhampton, Wulfruna Street, Wolverhampton. England, WV1 1LY
E-mail: suresh.renukappa@wlv.ac.uk

3 Reader, Faculty of Science and Engineering, University of Wolverhampton, Wulfruna Street, Wolverhampton. England, WV1 1LY
E-mail: s.subashini@wlv.ac.uk

* Corresponding Author E-mail Address: suresh.renukappa@wlv.ac.uk
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Gabriel Martinez, Suresh Renukappa, and Subashini Suresh

Faculty of Science and Engineering, University of Wolverhampton, Wulfruna Street, Wolverhampton, England, WV1 1LY
g.martinezvolquez@wlv.ac.uk
suresh.renukappa@wlv.ac.uk
s.subashini@wlv.ac.uk

Summary:

Business model innovation has increasingly gained attention in both research and practice in recent years. A business model is defined as the outline of the value creation, value delivery and value capture activities of an organisation. With current pressures on our planet resources and the environment business model innovation give organisations a way to ensure that their operations create positive impact on the environment and society. Ideally a sustainable business model is one that contributes to sustainable development while ensuring competitive advantage by delivering greater forms of value to customers. This paper aims to provide an understanding of factors external to firms that drive sustainable forms of innovation. A literature review on drivers of sustainable value creation from an institutional theory perspective was conducted. Finding were further analysed within the context of business model innovation and a list of eight drivers that influences business model innovation for sustainability were identified and discussed.

Keywords: Business model, innovation, drivers, sustainability, competitiveness, and value creation.

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INTRODUCTION

Business Model (BM) and Business Model Innovation (BMI) as concepts have become popular in macro management theory (Foss and Saebi, 2016). Every organisation utilises a particular BM. It describes how an organisation create and deliver their value proposition to consumers; also, how it captures value from the market. The concept has been successfully applied to conduct research on a variety of industries such as: retail, industrial, energy, banking, services, and others (Al-Debei and Avison, 2010; Baldassarre et al. 2017; Joyce and Paquin, 2016; Yang et al., 2017).

By innovating their business model organisations have become better capable of creating positive social and environmental change by redefining the purpose of the organisation, developing mutually beneficial relationship with stakeholders or by increasingly interacting with the market as they seek for legitimacy throughout institutions and market they operate. (Bocken et al., 2014; Bocken and Short, 2016; Geissdoerfer, Bocken and Hultink, 2016; Lüdeke-Freund and Dembek, 2017).

In current business environment it is especially important to understand the factors that influence change in organisations. External driving forces refers to situations, event and particular contexts from outside the organisation that have an impact on the work and decision making. Oliver (1997), Orji (2019) and Tura et al., (2019) points out that external drivers of sustainability adoption well recognised in research include: regulations, public pressure, competitors and customer demands.

A clear understanding of what drives a given phenomenon can help to further advance a field by identifying new problems, providing answers and framing the rationale behind the given phenomenon. Therefore, the aim of this research is to advance the understanding on the external factors that drives organisations to innovate their business model to deliver greater sustainability value.

METHODOLOGY

Firstly in this section, important concepts related to the present research work are presented in order to provide context and better understanding of the analysis and discussions presented. Then, research objectives are presented to define the scope of this research activity. Finally, the research methodology applied is detailed.

External drivers refer to those forces which origins external to the organisation; sources of these drivers include: external stakeholders, market, consumer, competitors, partners, etc (Oliver, 1997; Orji, 2019; Tura et al., 2019). The purpose of this literature review is to provide
an idea of the current understanding of drivers of business model innovation for both sustainability and further link the findings to institutional theory.

Prior defining and explaining the research methodology, is important to state research objectives. The main objective of the present study is to provide an understanding of the factors external to organisations that drives business model innovation for sustainability. Understanding of drivers allow organisations to align efforts to accomplish their goals. Furthermore, the study aims to discuss drivers found in literature under the scope of institutional theory.

Literature was reviewed to understand institutional theory with the purpose of validating it as an acceptable theoretical framework to analyse the drivers. Databases were selected as the source of academic papers: “ABI/INFORM Global”, “Business Source Complete” and “ScienceDirect”. Only peer reviewed papers were considered containing the combination of the following keywords: “Business model”, “Innovation”, “Sustainability” and “Driver”. Papers which included one or more of the keywords either in the title or the abstract were selected to be reviewed.

The criteria of the second round of selection consisted in reviewing abstract of the papers in order to ensure that they discuss drivers of business model innovation for sustainability and similar context. For example, paper that discuss drivers of sustainability innovation that produce changes on at least one of the core elements of the business model. This phase resulted in a list of 19 papers which were analysed.

Lastly, drivers found in literature were analysed, unified and reported considering the commonalities within the different analysed sources. Sources of external drivers were identified and discussed. As a result, a final list of eight drivers was identified.

INSTITUTIONAL THEORY

Institutional theory has emerged as one of the most predominant theories to study social context of an organisation. Where influences external to the organisation can lead to changes within. Institutional theory provides a theoretical framework which enable researchers to distinguish and analyse the factors that lead organisations to adapt and conform to the social norms of the business environment (Frynas and Yamahaki, 2016; Glover et al., 2014). Firms adapt because they cannot survive without some extent of social approval, also referred as legitimacy (Oliver, 1997). Within this context, legitimacy refers to business models that are recognised as adequate and acceptable by stakeholders because they comply with established norms, customs and codes of conduct.

Oliver (1997) points out that research on institutional theory tend to focus on the way processes and structures within organisations endure to become socially accepted and do not rely on continuous oversight to persist. It works under the premise that when institutions drive towards conformity of norms and social acceptance it leads to homogeneity (also referred as isomorphism) among them. This is because the belief is that when organisations gain legitimacy on this manner, it increases their level of social support and become more successful.

Institutional theory provides a theoretical perspective in which influences external to the organisation can be evaluated. Examples of these external influences include culture, society
and regulation (Glover et al., 2014). This theory explains that every organisation needs to adapt to the social norms, traditions and social influences of any business environment because they are unable to survive without some level of external social approval, also referred to as legitimacy (Oliver, 1997; Frynas and Yamahaki, 2016).

Literature on institutional theory allow to explain how changes in stakeholders values, regulatory compliance, technological innovation, resource scarcity and actions by competitors have an effect on the willingness of organisations to innovate their business model for a more sustainable one (Cai and Li, 2018; Comberg et al., 2014; Fernando and Wah, 2017; Neri et al., 2018). Institutional theory defines three forms of drivers that conduce to isomorphism in organisation. These are normative, coercive and mimetic isomorphic drivers. Normative isomorphic drivers occur when organisations comply with norms to achieve legitimacy. Coercive occur when figures in power influence the change. Mimetic influence occurs when organisations change to imitate actions of successful competitors in order to replicate their success and legitimacy.

The following section presents external drivers of business model innovation for sustainability found in the literature reviewed. Drivers are discussed under the lens of institutional theory.

**EXTERNAL DRIVERS OF BUSINESS MODEL INNOVATION FOR SUSTAINABILITY**

Literature reviewed concur that organisations are driven to innovate their business model by sources external to the organisations (Comberg et al., 2014; Glover et al., 2014). This is supported by institutional theory as organisations are adapting to their environment by conforming to norms, cultural context, social influences and others (Oliver, 1997).

Fernando and Wah (2017) and Rauter et al. (2017) noted that high level of market focus and customer demand for better environmental performance drives business model innovation for sustainability drivers. Fernando and Wah (2017) argues that organisations make an effort to understand how much consumer value sustainability attributes in their product which is aligned to Rauter et al. (2017) and Szilagyi et al. (2018) customer demand. Furthermore, Orji (2019), Sorescu et al. (2011) and Todeschini et al. (2017) define consumer awareness towards sustainability as an external factor that influences business model innovation for sustainability. These findings were unified as a driver in Table 2 for increased awareness of sustainability issues.

Compliance with government regulations, sanctions and taxes have been identified by different sources as a driver for the analysed phenomena (Cai and Li, 2018; Comberg et al., 2014; Naidoo and Gasparatos, 2018; Neri et al., 2018; Orji, 2019; Rauter et al., 2017; Sáez-Martínez et al., 2016).

Technological innovation and change capabilities is documented in literature as a motivating factor on business model innovation and sustainability value creation (Bidmon and Knab, 2018; Cai and Li, 2018; Comberg et al., 2014; Gladden, 2016; Kranich and Wald, 2015; Sáez-Martínez et al., 2016; Todeschini et al., 2017).

Work from Aquilani et al. (2018), Cai and Li (2018), Kranich and Wald (2015) and Neri et al. (2018) agree that the need of organisations to achieve competitive advantage against
competitors is also a driver. Neri et al. (2018) also discusses that organisations are also driven towards sustainability innovation as a result of actions from competitors. Findings from (Comberg et al., 2014) show new market entrants can threaten established firms and lead to innovation of the business model.

Stakeholder within the supply chain need to interact and coordinate activities meet demand. Greater collaboration leads to better capabilities to increase sustainability value creation. The driver “synergy with supply chain/ value network members” was identified from the for of Claro et al. (2013) and Rauter et al. (2017). Cooperation with business partners, community, investors and support organisations can help organisations to innovate increasing sustainability value (Neri et al., 2018). Good cooperation paired with collaborations mechanism that enables information, market, cost and risk sharing increase capabilities to develop a better organisational behaviour and social activity (Ray and Mondal, 2017). This results on driver for stakeholder collaboration. Other studies have reported pressure from stakeholders such as commercial partners, media, consumer or investor can influence the adoption of sustainable practices (Naidoo and Gasparatos, 2018; Neri et al., 2018).

Neri et al. (2018) and Szilagyi et al. (2018) discussed pressures from high energy and raw material demand and risk of resource scarcity have led organisations to adopt more responsible operation. Hence, the driver “Resource scarcity” was identified as a driver. As a result of a literature review eight drivers of business model innovation for sustainability were identified: increased awareness of sustainability issues, regulatory compliance, technological advancement, competitiveness, synergy with supply chain/ value network member, stakeholder collaboration, stakeholder pressure and resource scarcity. The following table present description of the drivers mentioned above:

Table 2: External drivers of business model innovation for sustainability.

<table>
<thead>
<tr>
<th>Driver</th>
<th>Sources</th>
<th>Description</th>
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Spieth et al. (2018) suggests that society (particularly consumers) have increased consciousness towards sustainability issues causing organisations to become more inclined to carry out business model innovation. As it is expected from consumers firms adopt more sustainable practices and develop sustainable products with greater social and environmental value is added to the value proposition (Fernando and Wah, 2017). This led firms to achieve legitimacy by becoming socially accepted (Oliver, 1997).

Critical review of literature shows that this external driver has been observed in a wide range of industries and also in developed and in developing countries which demonstrate how
sustainability is quickly becoming a global trend in the mind of consumers and they are influencing organisations to adopt more responsible ways of doing business (Fernando and Wah, 2017; Neri et al., 2018; Orji, 2019; Rauter et al., 2017; Sorescu et al., 2011; Szilagyi et al., 2018; Todeschini et al., 2017). In this sense, sustainability awareness from consumers can result in isomorphism as organisations develop homogeneous efforts to respond to the market. This is due to the coercive pressures from consumers (Masocha and Fatoki, 2018).

Fernando and Wah (2017), Neri et al. (2018) and Orji (2019) agree that the increased awareness of sustainability issue have pushed industrial and technology-oriented organisations to improve sustainability performance (Rauter et al. 2017; Sorescu et al. 2011). Organisations need to adapt to changes in customer values when they take a customer focused approach for value creation.

Pressure for organisations to pursue more sustainable practices can come stakeholders as well (Naidoo and Gasparatos, 2018; Neri et al., 2018). One example of this is found in Neri et al. (2018), after analysing sustainability adoption drivers in industrial organisations in Italy, the study found that commercial partners and members of the supply chain awareness have driven them towards the implementation of sustainable practices. Naidoo and Gasparatos (2018) also concur explaining that in the retail industry stakeholders such as supply chain members, the media and consumers can influence the adoption of sustainability in organisations.

Collaboration with stakeholders like business partners, community, investors and supporting organisations can also drive business model innovation for sustainability (Neri et al., 2018; Szilagyi et al., 2018). Collaboration activities that supports include improved supply chain design from raw materials procurement from suppliers to the delivery of finished goods to the end user; also, information, market, risk, cost and environmental impact sharing (Ray and Mondal, 2017). By linking this driver with findings on institutional theory, it is concluded that this respond to normative isomorphism pressures.

Synergy with supply chain partners can lead organisations to optimise sustainability performance and to innovate their business model. With the coordination of interorganisational processes and policies firms are more capable of adapting to sudden changes in customer demand and scarcity of resources with a better understanding on how to approach and how to invest in sustainability (Claro et al., 2013). The supply chain can exert normative pressure on firms (Frynas and Yamahaki, 2016). Literature review reveal this driver for sustainability in the food retail industry, therefore, more understanding about its applicability in the context of business model innovation and other industries is needed.

Motivation for business model innovation and greater sustainability value creation can also occur from the need to comply with regulations, sanctions, taxes or environmental standards (Cai and Li, 2018; Fernando and Wah, 2017; Sáez-Martínez, 2016). Drawing on institutional theory regulations exert a coercive pressure on organisations which can result in isomorphism (Frynas and Yamahaki, 2016).

For the case of environmental value creation, Sáez-Martínez (2016) sustains that well designed environmental regulations lead to innovation in firms that yield more benefit that the cost of complying with them. Economic sanctions alone might not be enough to dissuade organisations to change their practices, yet the resulting bad publicity and loss of market can cost much more than the financial penalty itself (Naidoo and Gasparatos, 2018). This motivates firms to act...
proactively and start planning ahead to comply with issues that put them at risk in the future. However, organisations sometimes are not able to identify the cost saving potential of energy and materials. This creates a challenge for regulators to persuade firms by developing measures that aid firms to understand the potential of sustainable practices and cleaner ways of operating.

Technology developments provide the opportunity to organisations not only to challenge their processes and product but also their business model (Sorescu et al., 2011). Without the ability to continuously innovate their business model, companies are often unable to find the right business model to capture the value from new technologies and processes (Chesbrough, 2010; Teece, 2010; Spencer and Ayoub, 2014). The right business model can turn technological innovation into a commercial success (Bidmon and Knab, 2018). Therefore, technological developments drive business model innovation as organisation search for the right business model for new technologies by redefining the value creation and capture strategies. Comberg et al. (2014) and Orji (2019) support this stating that technological innovation and access to it are among the most common triggers to business model innovation. To provide an example, we take the case of the music industry and its transition from the sale of tangible records to digital sales was driven by the quick growth of the internet (Gladden, 2016; Teece, 2010). This mimetic pressure forces organisations to react preventing loss of market presence from the lack of adoption of a new technology.

Sorescu et al. (2011) argues that developments in information and communications technologies have disrupt business models as firms are able to reach more and new channels and enable innovative ways of conducting the transaction with the consumer. The implementation of sustainability focused technological innovations are linked to reduction of the negative environmental impact in organisations (Fernando and Wah, 2017). For instance in the fashion industry technological innovation have driven organisations to pursue sustainable business model innovation by the application of more sustainable raw materials, waste reduction and the adoption of wearable technologies (Todeschini et al., 2017). These sources showcase how novel technologies can disrupt different elements of the business model, therefore, demonstrating the importance of them as drivers for business model innovation for sustainability.

Neri et al. (2018) explains that in industrial firms, resource scarcity triggers sustainability actions such as developing more efficient processes that consume less resources. Considering that resources scarcity can be associated with price instability or overall increase of price which means that organisations might experience cost savings as they push to reduce of usage of resources to perform key activities. With limitations of resources is clearer that if organisations continue operating with disregard on our planet limitations, they might suffer from supply disruption, rising costs and inability to respond to regulatory changes. Therefore, these business models are not sustainable, and organisations might stop implementing them (Szilagyi et al., 2018).

Comberg et al. (2014), Evans et al. (2017) and Boons and Lüdeke-Freund (2013) have identified business model innovation as a source of sustained competitive advantage. Since product and process innovation are considered relatively easy to imitate, the fact that innovative business models are hard to imitate because with an established value network a business must emulate the novel model while coexisting with the traditional one might mean increase competitive advantage for an organisation (Bashir and Verma, 2017; Teece, 2010). Evans et al. (2017) and Boons and Lüdeke-Freund (2013) provide another perspective stating that
business model innovation unlock the potential for organisations identify new and greater sources of value creation which also can result in increased competitive advantage. Therefore, in times where product and process innovation are not enough to ensure sustained competitive advantage, business model innovation can be put in place to generate new paths of value creation. Particularly sustainable ones to ensuring longevity for the organisation.

Furthermore, as well as taking technological innovations to the market, with business model innovation organisations are capable of disrupting industries and lead to great competitive advantage (Bidmon and Knab, 2018; Kranich and Wald 2015).

Actions from competitor have led organisations to adopt diverse forms of innovation (Neri et al., 2018). Aquilani et al. (2018) points out that if a given organisation wants to prevail in time it needs to be constantly aware of how competitors are evolving and their strategic moves. Furthermore, this drives firms to perform change whether it is on the product, processes or business model as a response of these actions. The study from Rauter et al. (2017) results shows that only a minority of the organisations reviewed have the opinion that sustainability leads to new markets acquisition or competitive advantage. This is aligned with the results of the study of Kiron et al. (2013), after surveying leaders of many organisations, found that only a minority (37%) have profit from sustainability activities and of those more than half assure they have changed their business in response to sustainability. However, the fact that organisations generally are not increasing profits from sustainability innovation does not necessarily means that they are not worth it. This is because sustainability business model innovation might be the way for companies to continue operating and remain relevant in changing business environments. Successful sustainability strategies from competitors can lead organisations to explore new ways of value creation to match or surpass other offerings in the market (Cai and Li, 2018; Kranich and Wald, 2015; Neri et al., 2018).

External drivers for business model innovation for sustainability from literature serves to also explain homogeneity of firms as they reach for legitimacy. These factors exert coercive, normative and mimetic pressures on organisations. Table 3 illustrate this by linking drivers with their corresponding form of isomorphic pressure:

<table>
<thead>
<tr>
<th>Isomorphic pressures</th>
<th>External drivers of business model innovation for sustainability</th>
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<tbody>
<tr>
<td>Coercive</td>
<td>Increased awareness of sustainability issues</td>
</tr>
<tr>
<td></td>
<td>Regulatory compliance</td>
</tr>
<tr>
<td></td>
<td>Stakeholders pressure</td>
</tr>
<tr>
<td></td>
<td>Resource scarcity</td>
</tr>
<tr>
<td>Normative</td>
<td>Synergy with supply chain/ value network members</td>
</tr>
<tr>
<td></td>
<td>Stakeholders Collaboration</td>
</tr>
<tr>
<td>Mimetic</td>
<td>Technological advancement</td>
</tr>
<tr>
<td></td>
<td>Competitiveness</td>
</tr>
</tbody>
</table>

**CONCLUSIONS**
Business model innovation theory opens the possibility to redesign organisations by rethinking perceptions of value and value creation logics. In this sense, the challenge of traditional organisations is to embed sustainability into their operations while new organisations pursue sustainability from their conception. Therefore, understanding of what influences this process can lead to further growth and application of the field and its underlying theories.

In current state of research there is an understanding of drivers for sustainability change external to the organisations. Some of these drivers belong to the sustainability innovation management theory. However, due to the fact that they directly influence change to elements of the business model are considered as relevant to understand the business model innovation phenomena.

Institutional theory is useful to examine these drivers as they respond to the need of legitimacy or wide social acceptance of organisation. Furthermore, it is clear that leaders of organisations understand the importance of more sustainable practice; whether business model innovation for sustainability aims to comply with regulations, obtain social acceptance or mimic successful practice from competitors.

Eight drivers were identified and discussed. Drivers are found to generate isomorphism between organisations due to the pressure they exert. Consumer increased awareness on sustainability issues, regulations, resource scarcity and stakeholders put coercive on organisations because they come from external players that organisations depend upon. Professional standards and network influences which exert to normative isomorphic pressures are linked with the drivers: synergy with supply chain/ value network members and stakeholder’s collaboration. Mimetic isomorphic pressures occur when firms imitate successful actions from other players in the mark such as the cased of the technological advancement and competitiveness drivers found in literature.

Future research should cover their relevance and impact they have on the success of organisations nowadays. Understanding the level of importance of the different drivers can help organisations prioritise and align processes and resources accordingly to ensure success. Similar study should cover influences from within the organisation that drives business model innovation for sustainability. Also, further studies should focus on examining the relationships between internal and external drivers of business model innovation for sustainability. As is important to identify barriers and examine the way they interact with the drivers and design a framework to overcome them.

REFERENCES


