

# RELATIONS BETWEEN BUSINESS MODEL AND BUSINESS STRATEGY

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## Abstract

The principal goal of the study is to identify relations that occur between the formulated and implemented business strategy and business model in enterprises. The significance of the problem adopted results from the role played by both business strategy and business model of the enterprise in contemporary management of organizations. Undoubtedly, there are cause-and-effect relationships between these concepts. They form a system of coherent assumptions and correlated activities that contribute to achievement of the goals set in organizations. The principal decisions made in enterprises, concerning the perspective of creation of competitive advantage, represent the object of interest of both business strategy and business model. These two categories, included in the mainstream of the strategic management, show some similarities and differences. The related literature emphasizes the necessity of differentiation between business model and strategy of the enterprise as two separate items that operationalize enterprise's reality. Business strategy and business model are not identical, although they are interdependent. However, the scientific views lack consistency in terms of this relationship. There are views that highlight the collaterality of business model with respect to the strategy implemented. In this respect, it is adopted that, at the stage of formulation of the strategy, various business models can be used. According to this concept, business model, referring to the logics of enterprise's operation, represents the pathway towards creating value for stakeholders. Furthermore, strategy refers to choosing a business model used by the enterprise to compete in the market. The second concept adopts formation of the strategy through business model. Thus, strategy represents a component of the business model. Its secondary character results from managerial activities which span from determination of business model through to formulation of business strategy. The theoretical analysis allows for assumption that business model and business strategy represent different but also slightly similar objects of scientific explorations. Using them collectively improves the perspective of understanding and describing business activities.

**Keywords:** business model, business strategy

## 1. Introduction

Many studies in the field of management sciences have emphasized the necessity to research the problems of business models, both theoretically and practically. (Nogalski, 2009a, pp. 35-36) The significance of these problems relates to practical utility of business models that form specific principles of operation of the entities and represents an interesting cognitive challenge. From theoretical standpoint, in-depth analysis of the problems connected with business models might represent the basis for implementation in the area of practice. This is especially important in the light of surveys since managers, on the one hand, see the need for implementation of changes in present business models in their organizations, but, on the other hand, this does not translate through expenditures into implementation of new business models. (Johnson et al, 2008) Therefore, there is the necessity of analysis of strength and weaknesses of the business model used in a specific entity in order to determine its usefulness and the need for its modification.

However, while emphasizing the significance of business models, one should also stress the necessity of formulation of business strategies by the enterprises in the context of achievement of the goals of a specific entity, its growth or development. One should note coexistence, on the background of strategic management in the organization, of the concepts of business strategy and business model. Both analogies and discrepancies can be found between these terms. Therefore, analysis of these two problems represents an important problem both from the standpoint of sciences of management and in the context of the practice of enterprise management. Consequently, in research terms, it is important to identify similarities and differences between business model and enterprise strategy.

## 2. Business strategy and business model: interpretation of the concepts

With respect to chronology of categories analysed with respect to sciences of management, one can indicate the primary character of the concept of business strategy over the concept of business model. Therefore, these concepts will be discussed in this study with respect to this order. In the beginning of the investigations, it is worth emphasizing the multitude of definitional approaches to these two problems, which, on the one hand, points to the importance of the problem analysed and the need for in-depth cognition, and, on the other hand, suggest an interpretative chaos and lack of uniform orientation of the problems discussed, which allows management practitioners to avoid discrepancies during implementation of theoretical output into practice.

While adopting terminological interpretation of the concept of strategy proposed by A. Kaleta (2013, p. 41), one can indicate that it relates to:

- long-term concept of enterprise development, which determines its objectives and methods of achievement of these goals,
- idea of long-term uniqueness of the enterprise,
- concept of in-depth changes, formulated with respect to the enterprise's future,
- concept of the choice of priority tasks that refer to seeing the future with regard to lost benefits which would be obtained with realization of less important initiatives.

One can also cite the definition of the strategy with its classical approach that refers to the concept of enterprises operation in long terms. With this meaning, strategy contains the main objectives at which an organization is oriented, methods of operation and rules of operation that the organization should use. (Krupski et al, 2009, pp.12-23) T. Falencinkowski (2012, p.83) adopted that strategy consists in determination of the range of business through the choice of the directions of its realization and methods used for business activities. Consequently, it can be indicated that strategy describes the dynamics of business activities. Furthermore, the literature points that an important element of the strategy is to define the sources of creating value in the enterprises for stakeholders. (Rutowicz, 2013, pp. 472-473)

With respect to the concept of business model, one can indicate the interpretation given by Shafer, Smith and Linder, who emphasized that business model relates to logics that determines creation and maintaining value in the enterprise. (Shafer et al, 2005, pp. 199-207). With similar terms, this problem was defined by Chesbrough and Rosenbloom (2002, p. 529), who understood this concept as a heristic logics that connects potential of technology with achievement of the economic value. Gołębiowski, Dudzik, Lewandowska and Witek-Hajduk (2008, p. 57) also related to the logics of operation and found that business model represents a conceptual tool that contains the set of elements and relations between each other, which presents logics of operation in the enterprise in a specific area. Furthermore, Nogalski (2009a, pp.37-38) interpreted the problem in the context of a developed form of an organizational model of management of enterprises.

Analysis of the above levels of business model helps perceive and emphasize the essential relationship between business model and strategy of enterprises. Analysis and diagnosis of these problems might represent an answer to the turbulence and lack of stability of the contemporary environment, which force managers to be flexible in acting and decision-making.

## 3. Business strategy vs. business model: similarities and differences

Analysis of the characteristics of the strategy used by an organization and interpretation of the determinants of business model to be implemented, it is worth noting basic similarities and differences observed between these two categories. With respect to similarities, it should be emphasized that both business model and business strategy belong to tools for strategic planning. It is emphasized that both concepts concern a long time perspective, and contain a set of principle to be used by managers, and, although the range of these principles might differ significantly, they determine the activities necessary to run business in both cases (Drzewiecki, 2011, p. 340)

Furthermore, it can be indicated that business model and business strategy are based on consistent theoretical assumptions concerning organization and management. Common theoretical foundation that represents the basis for formulation of business strategy and business model is provided by such concepts as: „value chain”, „competitive position and competitiveness”, „economics of transactional costs” (Moriss at al., 2005, pp.726-735). Another significant confluence of these two categories is decision-making aspect. Both business model and business strategy concern a set of decisions that relate to essential aspects of enterprise operation.

With respect to the differences that divide these two concepts, it can be stressed that they are more distinctive than similarities, thus suggesting the necessity of separateness in approaching business strategy and business model. B. Nogalski (2009) pointed that business model and strategy are independent forms that operationalize enterprise reality despite creation of coherent assumptions and correlated activities that co-create achievement of the enterprise goals. Consequently, a principal difference between business model and business strategy can be indicated: it consists in different approach to variability of state. The concept of business model reflects static character of the phenomenon and describes schemes, patterns of operation, frameworks, system of relations in a more abstract manner. On the other hand, strategy relates to the method of achievement and describes a dynamic character of the phenomenon, pointing to the flexibility of enterprise in variable conditions of functioning.

It also emphasizes the differences in approaching to maintaining value and ability to generate this value. Business model is oriented mainly at creating value for customers. Strategy focuses on value for stakeholders. (Rudny, 2013, s. 98-101) Therefore, it should be emphasized that strategy is oriented at positioning of the enterprise with respect to its competitors and the concept of business model focuses on creating patterns for transactions of exchange with external entities and relationships with them through markets of factors of production.

Although business strategy and business model relate to the same categories, they are considered from another standpoints. This is also reflected in decision-making in the enterprise. Strategy concerns organization, relating it to the subject-oriented aspect and is inherent in it. Therefore, strategy serves as a pattern of activities used by the enterprise. On the other hand, business model is connected with decision-making problems in the functional and object-oriented context. In business model, the emphasis is on business initiatives, whereas this problem is not a priority in business model structure.

With respect to the above interpretation of analogy and discrepancies between business strategy and business model, we attempted to compare these two concepts with the background of problems formulated by means of principal questions. (see Diagram 1)

Diagram 1. Principal questions that characterize the strategy and business model

| Business strategy  | Business model   |
|--|--|
| <ul style="list-style-type: none"> <li>•What should and what should not be done in the enterprise?</li> <li>•Where should value be created and how to improve the value?</li> <li>•Which products and services should be provided to customers in order to make them different from competitors?</li> <li>•How to act and which resources should be used? Which resources does the enterprise have?</li> <li>•How to encourage and meet customer expectations?</li> <li>•How to react to turbulent conditions of the environment?</li> <li>•How to implement effective competitive fighting?</li> <li>• How to manage each area of the organizational structure and form their potential?</li> </ul> | <ul style="list-style-type: none"> <li>•Which markets does the enterprise operate in?</li> <li>•Who does the enterprise create value for and what are the most important customers?</li> <li>•Which value does the enterprise generate for customers?</li> <li>•How does the enterprise start contacts with customers?</li> <li>•What are its relationships with individual market segments?</li> <li>•What are the principle sources of incomes?</li> <li>•Which key resources are required to achieve proposition of value?</li> <li>•Which key actions are required for realization of the value?</li> <li>•Who should be regarded as key partners?</li> <li>•Which important costs are generated by business model?</li> </ul> |

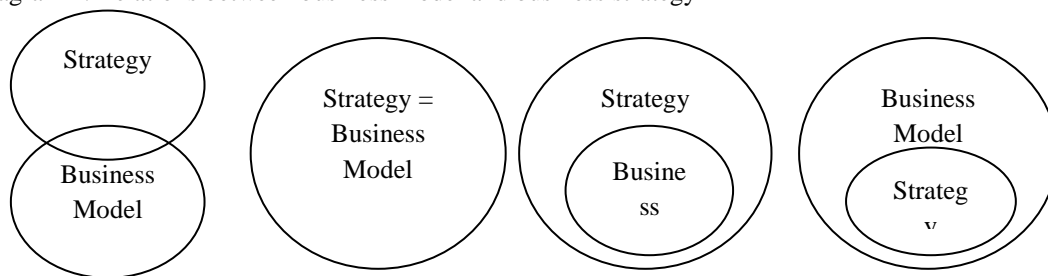
Therefore, it should be noted that it represents a description of activities connected with a time horizon which is considered from the standpoint of the time necessary for performing these activities and with regards to occurrence of concrete effects. Furthermore, business model concerns first and foremost the concept of description of enterprise operation. It represents a logical explanation for the method to improve value in the enterprise.

It is emphasized that business model is oriented at logics of value creation for customers and enterprise, whereas strategy is oriented at competitive fighting and selling the value generated. (Falencinkowski, 2012, p.90) It should be emphasized that these concepts are complementary to each other. Development of business strategy requires abilities to realize this strategy. Therefore, it can be indicated that implementation of strategic goals requires taking measures connected with the business model in the enterprise.

#### 4. Identification of relationships between business strategy and business model.

Undoubtedly, there are essential relationships between these two problems. With respect to the primary nature of the concept of business strategy in the area of interest of management sciences, one should investigate the order of these concepts in realization of business activities of the enterprise. There are two general approaches present in the literature concerning these problems, which are substantially different in their nature. The first view adopts that strategy is a part of business model. The second approach is that it is business model which represents a part of enterprise strategy. (Falencinkowski, Nogalski, 2014, p.31) According to Thompson and Strickland (2004, p.3), strategy is a wider concept with respect to business model. These authors argued that strategy relates to a competitive initiative of the enterprise regardless of the results, whereas business model focuses on the problems of sufficient income necessary for further operation of the enterprise. With the opposite views, the precedence of business model is assumed with respect to business strategy. T. Falencinkowski (2012, p. 90) presented this view and supported it with the argument that business strategy is a consequence of business model, since the model represents the assumption for the strategy and is an initiating factor for the strategy. B. Nogalski (2009b, p.7-8) also demonstrated the priority of business model over strategy and argued that changes in business model mean strategic change of enterprise's operation. Further, the change in strategy does not necessarily affect previous structure of business model. However, a wider context or relationships between business strategy and business model can also be presented (see Diagram 2)

Diagram 2. Relations between business model and business strategy



Source: author's own elaboration based on: Rusnjak 2012, p. 68

Osterwalder and Pigneur (2012, pp.19-21) note that business model represents a "sketch" of strategy which is planned to be implemented within structures, processes and systems of organization. It has also been argued that business strategy and business model, which are not identical, are interdependent. With this arrangement, business model forms strategy since reality and opportunity of realization of strategy is based on capabilities, resources and previous position of the enterprise. (Duczowska-Piasecka i inni, 2013, pp. 146-294) While focusing on further investigations of integrity of business model and strategy in the enterprise, one can refer to the views presented by Niemczyk (2010, p.203), who combined business model with mixture of strategy, tactics and operational activities. Furthermore, Jabłoński (2013, pp.43-74) argues that strategic choices made in the enterprise translate into tactical activities which form the final picture of business model, while transition between business models obliges to make strategic choices and make pressure on key components that help implement a specific strategy in the enterprise. This author argues that business model can, but does not have to, represent the basis and inspiration for determination of the strategy and preparation of the strategic plan. However, it should be expected that direct and fast implementation of the business concept and testing it in practice might become risky for achievement of the organization's goal.

#### 5. Conclusion

The theoretical investigations presented in this study lead to the conclusion that both concepts, strategy and business model, confirm their usefulness in realization of economic processes. It is possible to identify differences between each other, but they also show substantial similarities. In-depth analysis of these problems can be justified in searching for effective methods and factors to generate value and build competitive advantage in enterprises.

They can often be achieved through strategic revival of the economic activities in the enterprise, which is possible to be achieved through revitalization of the business model using corrections, improvement and changes.

In conclusion, it should be emphasized that the concepts of business strategy and business model are essential in management sciences. Although one can identify differences between each other, some substantial similarities can also be indicated. Furthermore, analysis of literature points to a difficulty with unequivocal interpretation of the priority of relations that occur between each other. However, business model should be treated as a relatively general concept that represents initiation of strategic management in the enterprise.

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