The Chain Reactions of Business Models and Strategies

Gabriela Andrisan
University of Aberdeen, United Kingdom
gandrisan31@gmail.com
Andra Modreanu
University of Southampton, United Kingdom
andra.modreanu@yahoo.com

Abstract

When researching business models in the available literature, the concept of strategy comes up frequently. It is typically portrayed that these two concepts are intertwined and must be used in tandem to achieve a company's goals and objectives. This article proposes a conceptual analysis that can provide an overview of how business models and strategies interact and what the outcome of this union is. As a result, a synthesis of the most common characteristics associated with them was derived from the existing literature review and was analyzed in order to establish their relationship, leaving room for future research. The research methodology is quantitative in nature and helps establish the ground work for the research in this paper.

Key words: business models, business, strategy, value creation
J.E.L. classification: M1, M19

1. Introduction

Every company has a set of goals and objectives that it hopes to achieve. To do so, they must devise at least one strategy to pave the way to their end purpose in today's turbulent times (Toma & Marinescu, 2015). As a consequence, businesses will use various methods and tools to correctly understand what options are available and which steps must be taken to reach their aims.

Business models can be used to create a framework for the structure and organization of a company's operations. As a result, this tool may provide its users with a comprehensive picture of the company at a given point in time and how it operates. While this is extremely useful for understanding where the company is now, it does not provide managers with solutions for preserving or correcting the company's current path. Today's business models are increasingly based on innovation and digitalization (Tohănean & Toma, 2018; Toma & Tohănean, 2018). In this respect, the automotive sector provides numerous valuable examples, especially in connection with lean management or business excellence (Naruo & Toma, 2007; Marinescu & Toma, 2008; Toma & Naruo, 2017).

The focus of this article is to demonstrate the benefits of combining the business model tool with strategic thinking. The concepts of strategy and business models are inextricably linked and should be treated as such when determining the best course of action for the company. A pattern can be established by using the results of building a business model at various points in time, which can then help the company elaborate and adjust the strategy implemented appropriately.

To achieve the above, a literary review of significant writings from recent decades was carried out in order to analyse and recognise the most prevalent and noteworthy features of business models, as well as appreciate the importance of strategy and its applicability. Because the concepts in question do not have a single meaning, interpretations and conclusions will be drawn by collecting the most prominent perspectives from the researchers who have done extensive studies in this area. The authors have used a quantitative research method in order to achieve the paper's goal, and the results have been conveyed in the findings section.

2. Literature review

2.1. Business models

The business model is a concept that has only recently gained academic attention in the fields of strategic management, innovation, and entrepreneurship (Toma & Marinescu, 2012; Toma & Marinescu, 2018; Toma & Tohănean, 2019). The paradigm is gaining traction as a novel idea for explaining not only a company's fundamental logic for creating and extracting value, but also the mechanisms that support that logic. With this ideation, the business model provides an original framework that offers a new perspective into the managerial conversation and thus extends the prior knowledge frameworks within this domain. The number of publications mentioning the term "business model" has risen exponentially since the late 1990s and early 2000s, indicating a spike in interest in the topic. The significance of the business model, on the other hand, is not limited to academic discussion. Practitioners have recently expressed interest in the concept, recognizing the business model as a significant source of innovation that goes beyond traditional product and process improvements. Furthermore, when determining the value creation and value capture rationale, the business model is thought to have a significant impact on firm performance.

The buzzword "business model" has become more widespread and it has been used more frequently. Regardless of the fact that academics and business executives are becoming more interested in the term "business model", the business community has yet to reach an agreement on a universally accepted interpretation (Shafer *et al*., 2005).

Through a structural layout, the Business model portrays the arrangement of a core company's dealings with all of its various stakeholders in factor and product marketplaces. It has climbed to the forefront of strategic management thinking and has become an especially important new opportunity representation as a result of recent rapid developments in information and communication technologies, particularly Internet and broadband enhancements, which have motivated new types of innovation among both financial specialists and managers (Geoffrion & Krishnan, 2003).

Because it influences firms' potential outcomes for creating a competitive advantage, the study of business models is an important subject matter for strategic management research (Amit & Zott, 2001). A freshly centered business model, along with an early entry into a company sector, has a positive impact on performance (Zott & Amit, 2007).

Each coordinated movement in planning and implementing a specific business model includes both hierarchical and administrative levels, with a focus on specific functional departments that are most discriminating in determining and blending business components whose relationship and complementarity structures the breadth and scale of any company's focused abilities. In this context, business modeling is a process rather than a state, due to the necessary adjustments, whether transformative or value-based, that create the technique for managing it (Drakulevski & Nakov, 2014).

It is evident that the topic of business models has resulted in a large number of papers and works of literature. Osterwalder & Pigneur (2011) explore it from a variety of perspectives, including e-business, information technology, strategy, and organization. The business model, according to Mansfield and Fourie (2004), is the connection between a company's resources, activities, and setting.

2.2. Strategy

For many years, industry leaders and theorists have studied strategy. However, there is no definitive answer to the question of what strategy entails. One explanation appears to be that people have different viewpoints on strategy. The layout and construction of an organization's existing resources in order to meet the needs, demands, and interests of marketplaces and stakeholders is meant to be referred as strategy. This is also the long-term path and span of an organization that shapes its visions and goals (Johnson *et al*, 2008).

A company's strategy is, in some cases, the set of decisions that identifies and reflects the company's objectives, aims, and goals. Furthermore, strategy develops the major policies and plans for achieving the goals. It defines the scope of the company's operations as well as the social and economic structure it aspires to be (Andrews, 1980).

In actual fact, not all business practices fall into the strategic band. Strategic choices are those that do things "diversely" to competitors, and that variation results in a long-term competitive advantage. Even the actions taken to increase productivity are not strategic because they are simply replicated by others (Porter, 1996). In essence, strategy is a framework that directs activities while also being influenced by them, and it has nine potential driving forces: products offered, market needs, technology, production capability, method of sale, method of distribution, natural resources, size/growth, return/profit.

In their work, strategy specialists employ administrative, discursive, and episodic approaches (Jarzabkowski, 2005). Because practices are repeated, they frequently generate internal inertial forces that stymie strategic change (Jarzabkowski, 2004). On a personal level, such factors are linked to cognition, putting strategy experts at risk of ignoring environmental changes due to the passive thought processes on which their perceptual filters are based (Hodgkinson and Wright, 2002).

As per Khalifa (2020), strategies are classified into three types: (good or bad) strategies, non-strategies, and no strategies. These are to be taken into account as follows:

- No strategy - A no strategy situation occurs when a company has not established, evaluated, or recognized the need for something resembling a strategy;
- Non-strategy – occurs when an entity has a strategy and believes it has been adopted and is now being implemented, but the strategy is not really driven by the winning theory; and
- Strategy (good or bad) - According to Khalifa (2020), a strategy is one that has been comprehensively thought out, guided by the philosophy of winning, and purposefully implemented, regardless of whether the strategy is genuinely right or wrong for the organization or business.

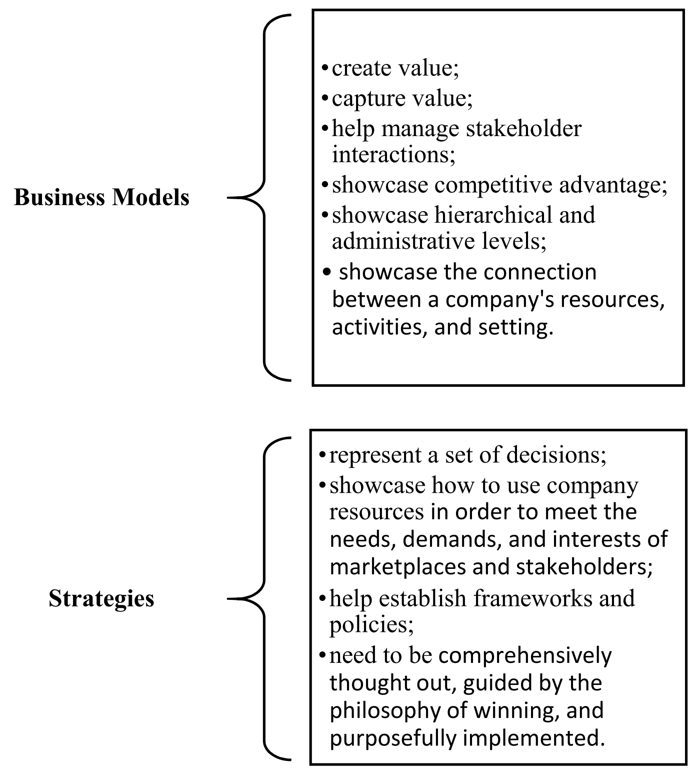
3. Research methodology

The methodology used in the paper was quantitative in nature. Online databases including academic articles and scientific papers from the fields of business, management, and leadership have been used to access information from multiple resources for the literature analysis with the goal of assessing the varied definitions of and applications of business models by firms. The empirical findings from the reviewed literature are presented and elaborated in the findings section. Finally, the conclusions section summarizes the findings of this analysis, while also providing room for additional research within future papers.

4. Findings

In order to synthesize the findings of the literature review, the author chose to highlight the most prominent features of the two concepts in question (see Figure no. 1) and identify the link that can be established when both are put into practice. (see Figure no. 2)

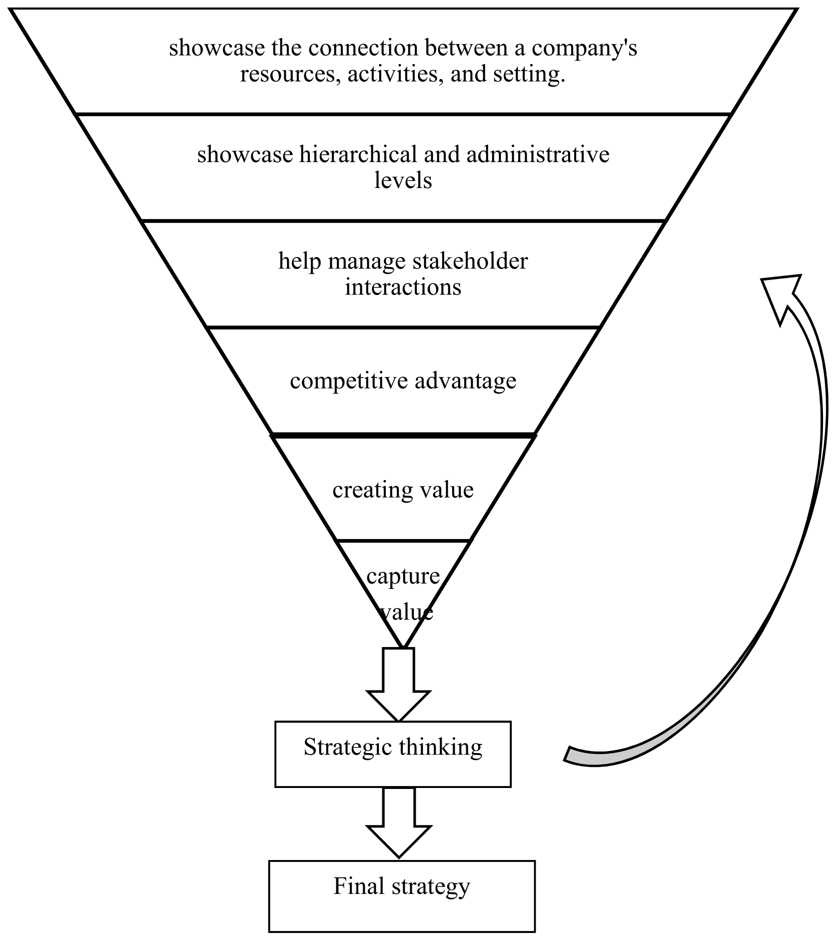
Figure no. 1. Business models and Strategy characteristics



Source: Author's own contribution based on literature review analysis

The link depicted in Figure no. 2 indicates that in order to obtain a final form of strategy, it is necessary to create a process in which information is funneled through the strategic thinking of managers and companies. This process is a cycle that must be repeated at various points in time in order to understand the patterns created by the business's activities. Only then can a proper course of action be determined by employing various tactics that comprise the overall strategy. This strategy is then implemented in order to achieve the company's primary goals and objectives. The reason for the process being repeated several times is to create either a long-term strategy or multiple short-term strategies that will benefit the company in the long run.

Figure no. 2. Link between Business models and strategies



Source: Author's own contribution based on literature review analysis

5. Conclusions

Overall, the paper has demonstrated the value of employing both business models and strategic thinking. This was accomplished by analyzing the various sources of information provided by the authors who had previously conducted research on the subjects mentioned above. The author then extracted the most important characteristics of both concepts and demonstrated the linkage that can be established between them using visual aids. To summarize the findings, strategic thinking is a funnel through which business models must pass in order to see the bigger picture and contribute to the company's goals and objectives.

The main limitation of the paper was that the research was only conducted through quantitative means; however, this leaves room for future research on the topic in future writings.

6. References

- Amit, R., & Zott, C., 2001. Value creation in e-business. *Strategic Management Journal*, 22, pp.493-520.
- Andrews, K. R., 1980. Directors' responsibility for corporate strategy. *Harvard Business Review*, 58(6), pp.30–42.
- Drakulevski, L. & Nakov, L., 2014. Managing business model as function of organizational dynamism. *Management*, 19(72), pp.37-44. [online] Available at: <http://management.fon.bg.ac.rs/index.php/mng/article/view/118/85> [Accessed 31 May 2021].

- Geoffrion, A., & Krishnan, R., 2003. E-business and management science: mutual impacts (Part 1 of 2). *Management Science*, 49(10), pp.1275-1286.
- Hodgkinson, G.P. & Wright, G., 2002. Confronting strategic inertia in a top management tea,: learning from failure. *Organization Studies,* 23(6), pp. 949-977.
- Jarzabkowski, P., 2004. Strategy as practice: Recursiveness, adaptation, and practices-in-use. *Organization Studies,* 25(4), pp.529-560.
- Jarzabkowski, P., 2005. *Strategy as Practice: An Activity-Based Approach*. London: Sage, pp.9-11.
- Johnson *et all*, 2008. *Exploring Corporate Strategy*. 8th Ed. Harlow: Pearson Education Limited, p.7.
- Khalifa, A.S., 2020. Strategy: restoring the lost meaning. *Journal of Strategy and Management*, 13(1), pp.128-143.
- Mansfield, G.M. & Fourie, L., 2004. Strategy and Business Models-Strange Bedfellows? A Case for Convergence and Its Evolution into Strategic Architecture. *South African Journal of Business Management*, 35, pp.35-44.
- Marinescu, P. & Toma, S.-G., 2008. Implementing Lean Management in the Romanian Industry. In: T. Koch, ed., 2008. *Lean Business Systems and Beyond.* New York: Springer, New York. pp.269-276.
- Naruo, S. & Toma, S.-G., 2007. From Toyota Production System to Lean Retailing: Lessons from Seven-Eleven Japan. In: J. Olhager & F. Persson, eds. 2007. *Advances in Production Management Systems*. New York: Springer. pp. 387-395.
- Osterwalder, A. & Pigneur, Y., 2011. Aligning Profit and Purpose Through Business Model Innovation. In: G. Palazzo& M. Wentland, eds. 2011. *Responsible Management Practices for the 21st Century*. London: Pearson International. pp.61-76.
- Porter, M. E., 1996. What Is Strategy? *Harvard Business Review,* 74(6), pp.61–78.
- Shafer, S. M., Smith, H. J. & Linder, J., 2005. The power of business model. *Business Horizons*, 48(3), pp.199-207.
- Tohănean, D. & Toma, S.-G., 2018. Innovation, a key element of business models in the Fourth Industrial Revolution. *Network Intelligence Studies*, 6(12), pp.121-130.
- Toma, S.-G. & Marinescu, P., 2012. Business Models Based on Corporate Social Responsibility: the Case of Global Pharmaceutical Companies. *Ovidius University Annals-Economic Sciences Series*, vol. XII(1), pp.1221-1225.
- Toma, S.-G. & Marinescu, P., 2015. Strategy and change. *Manage*r, 21, pp.145-150. [online] Available at: <, https://www.proquest.com/docview/1785750491/fulltextPDF/CE2D54FA8934469BPQ/1?accountid=15533> [Accessed 01 June 2021].
- Toma, S.-G. & Naruo, S., 2017. Total Quality Management and Business Excellence: The Best Practices at Toyota Motor Corporation. *Amfiteatru Economic*, 19(45), pp.566-580.
- Toma, S.-G. & Marinescu, P., 2018. *Business excellence models: A comparison.* Proceedings of the International Conference on Business Excellence, 12(1), pp.966–974. [online] Available at: <https://content.sciendo.com/view/journals/picbe/12/1/article-p966.xml> [Accessed 01 June 2021].
- Toma, S.-G. & Tohănean, D., 2018. Internet of Things, digitalization and the future of business models. *Strategii Manageriale*, 2(40), pp.130-137.
- Toma, S.-G. & Tohănean, D., 2019. Green business models: The case of a German automaker. *Quality - Access to Success*, 20(S2), pp.635-640.
- Zott, C. & Amit, R. 2007. Business model design and the performance of entrepreneurial firms. *Organization Science,* 18(2), pp.181-199.