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On conceptual differentiation and integration of strategy and business model*

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Abstract

The objective of this paper is to develop the conceptual integration of strategy and business model. Theoretical method is used in order to achieve this objective. The theory building leads to the construction of conceptual model of strategy and business model, and provides its underlying logic. The main finding is that strategy is a pattern within which a business model changes. Only one strategy may exist for a firm in a concrete time frame, while there may be countless business models in the same period. Therefore, strategy represents the sum of all business models and their changes within a specified period. Each business model matches the set of functional strategies and their interdependencies, making strategic content in some particular moment, i.e. each business model is actually a bisection of the business strategy or a bisection of a set of functional strategies in one concrete moment. This specific contribution can be understood only if one takes an appropriate viewpoint of the process of strategy formation, namely the reactive perspective.

Key words: *strategy, business model, strategy process, strategic management*

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1. Introduction

Since its inception, the central objective of the field of strategic management has been to understand the linkage between environment, strategy and firm performance.

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Today, it is recognized by scholars and practitioners that this interaction is becoming more sophisticated. Contemporary organizations are facing unpredictable and even more complex environment in which they operate. Numerous tendencies in the global environment, such as shifts in technology and increased influence of information and communication technology (ICT) on organizational operations, deregulation, the changing face of competition, increased market transparency, more demanding customers, changing economic and political structures, transformation of information and knowledge into key economic resources, etc., have had a great impact on developing competitive advantage of all kinds of organizations. Nevertheless, for a long time the primary focus of academics and practitioners in developing competitive advantage of a firm has remained on strategy.

The nineties brought numerous innovations in the factors affecting the competitiveness of firms. Certainly one of the most important innovations in this area is related to the changes in information technologies (IT). IT is associated with the use of the Internet and numerous software applications that increase the efficiency of business processes, such as ERP (Enterprise Resource Planning) and CRM (Customer Relationship Management), but also increase the effectiveness and efficiency of management decision-making (e.g. expert systems, artificial neural networks, etc.).

McAfee and Brynjolfsson (2008) conducted a research regarding the proliferation of technology, which led them to the conclusion that IT has increased the dynamics of competition in industries which heavily use IT (those in which IT accounts for a comparatively large percentage of all fixed assets) since the mid-1990s and sharpened differences among companies in general instead of reducing them, because IT has accelerated and amplified differences in ability to select, adopt and exploit innovations.

Regarding these events, some serious changes in the field of strategic management were needed. Something had to be changed so that scholars and practitioners could finally start coping with emerging trends. As a result, during the 1990s, the notion of "business models" has emerged out of empirical settings of e-business and surged into the management vocabulary. In time, it has become increasingly popular, both within e-business and traditional business.

The burst in the development of information and communication technologies in the 1990s, also known as "dot.com bubble", resulted in a short-lived focus on the business model, while forces such as deregulation, technological change, globalization and sustainability have rekindled interest in the concept today (Casadesus-Masanell and Ricart, 2011).

Thus, even though the concept of a "business model" is relatively new, the study of business models has already become a very important topic for strategic management research, almost like strategy in the previous period. Today, "business model" and "strategy" are among the most heavily used terms in the field of business and management, although too often, the meaning of these terms is not very well understood. Moreover, they are sometimes even used interchangeably. Thus, it became obvious that the field of strategic management lacks clear understanding and differentiation between these two terms, as well as the linkages joining them.

This identified void in the strategic management literature has been the rationale for writing this paper. For too long, these two notions were not seen as clearly separated, which is why the efforts were undertaken in order to precisely define the terms "business model" and "strategy", make a clear boundary between them, and finally, since both of them are inseparable from the field of strategic management, make a clear connection between them.

Therefore, the objective of this paper is *to determine the conceptual model that depicts integration of strategy and business model in an organization that will be used as a solid foundation upon which other authors may continue to build novel theoretical concepts, as well as a set of guidelines for further empirical research on this subject.*

H**:** *We suppose that strategy and business model are two inseparable entities that form a conceptual model***.** *This model depicts strategy as a pattern within which a business model changes. Therefore, strategy represents the sum of all business models and their changes within a specified period. For illustration purposes, a business model can be perceived as a bisection of strategy.*

This paper is organized as follows. After a short overview of the literature on strategy, an overview of the literature on business models is presented. These two sections ought to support the process of making a complete understanding of these two notions in order to distinguish them. Afterward, the conceptual integration of a business model and strategy is given. This section of the paper discusses linkages and points of intersection of two main entities in the strategy management literature. Finally, conclusions regarding this topic are drawn.

2. Literature review: conceptual differentiation of strategy and business model

Strategy research covers many if not all of the theoretical components that are included in the business model concept (Hedman and Kalling, 2003). Thus, some of the questions are: What is the difference between strategy and business model? Where do we draw the boundary? Is there a bond between these two notions and, if there is, what is it like?

The next section of the paper explains the notions of "strategy" and "business model". After that, the conceptual integration of these two entities is presented.

2.1. Strategy

What is strategy and why is a strategy so important to organizations? The answer to these questions explains the great interest of scholars and practitioners for this subject. It is obvious that strategy can be seen as an attempt of the field of strategic management to answer the fundamental question of the manner in which firms achieve sustainable competitive advantage through their growth and development.

Therefore, what is a strategy? Viewed from the plan or proactive perspective, strategies are intended and precede actions. They present an insight into the future. This means strategies are formulated first and then the implementation process can begin. The strategy formulation concerns the use of simple rules that permit adaptation while establishing bounds that can prevent companies from falling off the edge of chaos (Eisenhardt and Sull, 2001). From this standpoint, Cook (1975) defines strategy as "a means by which the firm develops and fully utilizes its competencies and resources to take advantage of environmental opportunities or reduce the impact of externally imposed threats" (p. 52). On the other hand, to position itself within the environment, the company must make a vast array of detailed choices about how to develop, design, produce, sell, deliver, and service products (Porter, 1985). The essence of strategy is choosing to perform different activities or similar activities differently than competitors do. Strategy renders choices about what not to do as well as choices about what to do (Porter, 1996). In other words, strategy consists of the unique set of strategically significant processes and the handful of simple rules that guide them (Eisenhardt and Sull, 2001).

On the other hand, strategy sets the organization's direction and encompasses the company's vision and mission, as well as its short-term and long-term goals (Kates and Galbraith, 2007). "Strategy is the planned or actual coordination of the firm's major goals and actions, in time and space, that continuously co-align the firm with its environment. The firm's strategy co-aligns it with the environment by building on and modifying the firm's internal attributes and forces to respond to, and influence, environmental conditions and developments. In short, strategy is co-aligning or adaptive coordination." (Farjoun, 2002, pp. 570-571)

Alternatively, strategies can be viewed from the reactive perspective, where they present "a pattern in a stream of decisions or actions" (Mintzberg and McHugh, 1985). In this case, they represent the retrospective view (a view into the past). Thus, strategy is not formulated. It is formed in a manner that blurs the conceptual distinction between formulation and implementation processes. Rather than being distinct processes, formulation and action (i.e., implementation) are viewed as constantly co-evolving: following and affecting each other through a process of strategic learning and control (Farjoun, 2002).

In other words, deliberate strategies are the ones that are realized as intended and emergent strategies are those patterns or consistencies realized despite, or in the absence of, intention. This means that deliberate strategies are based on the planning processes, while emergent strategies are focused on learning. This is why deliberate and emergent strategies may be conceived as two ends of a continuum along which real-world strategies lie (Mintzberg, 1987; Mintzberg and Waters, 1985). Mintzberg (1994a) noted that "all viable strategies have emergent and deliberate (i.e. planned) qualities, since all must combine some degree of flexible learning with some degree of cerebral control" (p. 111). Mintzberg and Waters (1985) share the view of strategy formation process in which a realized strategy is presented as a convergence of intended strategy and emergent strategy. Derived from this image, strategy formation is defined as the fusion of deliberate managerial intentions (often in the form of strategic choices), the subsequent implementation efforts and the unanticipated emerging developments and learning.

Miller and Friesen (1982) agree with this point of view. They have noted that "strategy can best be understood by tracking it over time; by looking at behaviour rather than condition; by studying 'what happens in response to what'" (p. 1020).

In order to track strategies of firms, Mintzberg and his associates used to divide the decisions of these firms into several functional areas, such as: product lines, manufacturing, financing, organizational structure, etc. After analyzing each of them as separated (functional) strategy, they would analyze them again in an integral manner by combining all the graphical representations of these functional strategies on a single sheet of paper with a common horizontal timescale, in order to find overall patterns in the major periods of the firm (cf. Mintzberg, 1978; Mintzberg and Waters, 1982; Mintzberg, Taylor and Waters 1984; Mintzberg and Waters, 1984; Mintzberg and McHugh, 1985; Mintzberg, Brunet and Waters, 1986).

Understanding that strategies in organizations represent the mixture of deliberate actions, as well as emergent ones, Mintzberg et al. (1987) have coined the term "strategic umbrella" or "umbrella strategy", by which they meant a deliberate set of guidelines within which more specific strategies are allowed to emerge. It means deliberateness in overall direction without precise specification of pattern, which leaves room for emergence of detailed strategies. Thus, while individual actions may appear on ad hoc basis and individual strategies emerge, the overall pattern among them is not a coincidence; it is guided by a broader force.

Strategic processes in organizations do not evolve in an unconditioned manner but are cumulative, in the sense that events and decisions have an impact on those that succeed them. Once when an organization adopts a set of routines, it becomes difficult to change that (Koch, 2011). Organization inertia, which is induced by resource and routine rigidity, eventually takes place (Gilbert, 2005). Organization's current and future decisions are becoming imprinted by past decisions and their underlying logic (Arthur, 1989; Schreyögg and Kliesch-Eberl, 2007). Thus, organizational paths are formed as an outcome of a self-reinforced process that results in a pattern of action and reflection (Sydow, Schreyögg and Koch, 2009). When these paths are formed, the organization loses its property of having a range of available choices. These choices are important for its survival in a changing environment. Organizational paths affect the increase in reduction in a range of variety and thus in a range of choices, whereas the concept of strategy in its proper sense always implies having choices (Child, 1997). This is why Burgelman (2002) argued that a successful strategic evolution of an organization requires a set of measures that counterbalance established routines and allow for a sufficient degree of autonomous strategic action.

Following this discussion, it becomes obvious that strategy is immanent to every organization. Thus, every organization has a strategy. This argument has been advocated by numerous authors. For example, Inkpen and Choudhury (1995) argued that strategy is a characteristic of every organization even when formally absent. Their argument serves to protect the paradigm that awards a strategic property to all organizations by defeating those arguments that declare that organizations do exist without either an intentional or an emergent strategy (Bauerschmidt, 1996). This means that strategy can be tracked in every organization in order to define the process of strategy making.

2.2. Business model

After discussing the notion of "strategy" and the manner in which it forms in organizations, we turn our focus to the notion of "business model". We will first explain what a business model is, after which we will focus on its structure, and finally, we will outline some of implications of business models on a firm's performance.

Contemporary literature in business and strategic management is overwhelmed by the notion of a "business model", which is why an overview of this literature is presented. Therefore, what is a business model? Simply put, business model may be regarded as a prevailing concept of business. Osterwalder and Pigneur (2010) described business model as the rationale of how an organization creates, delivers and captures value. On the other hand, Kates and Galbraith (2007) have argued that business model is "a broad term used to encompass the internal logic of a company's method of doing business, which includes the business's value proposition, target customer segments, distribution channels, cost structure and revenue model" (p. 6).

Business model can be seen as a generic value chain underlying business. This chain has two parts. The first part includes all the activities associated with making something.

The second part concerns all the activities focused on selling what was made in the first part (Magretta, 2002). A business model reflects the operational and output system of a company, and as such, captures the manner in which the firm functions and creates value (Wirtz, Schilke and Ullrich, 2010). From the activity-based perspective, it can be argued that a business model defines the structure of the value chain (Zott and Amit, 2009). It can be viewed as a structural template of how a focal firm transacts with customers, partners, and vendors. It refers to the overall gestalt of these possibly interlinked boundary-spanning transactions (Zott and Amit, 2008).

Therefore, the overall objective of a business model is to exploit a business opportunity by creating value for the parties involved (Zott and Amit, 2009). Zott and Amit (2007) argued that "a business model elucidates how an organization is linked to external stakeholders, and how it engages in economic exchanges with them to create value for all exchange partners" (p. 181). Therefore, a business model performs two important functions: value creation, i.e. a series of interrelated activities within a firm, and value capture, i.e. a firm earning a profit from some portion of its activities (Chesbrough, 2007).

Thus, it can be concluded that the extant research understands a business model as an objective representation of the reality of the firm and its markets (Mason and Spring, 2011) or as the logic of the firm, the way it operates and how it creates value for its stakeholders (Casadesus-Masanell and Ricart, 2010). To make this notion operational, Casadesus-Masanell and Ricart (2010) argued that business models are composed of choices (policies, assets and governance) and the consequences derived from these choices. Therefore, every organization has a business model because every organization makes some choices and these choices have some consequences. This does not imply that every business model is satisfactory in the long run.

After taking into consideration various definitions of business models, we now turn to their structure, i.e. the elements comprising a business model. Amit and Zott (2001) thought of business model as "the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities" (p. 511). These design elements (content, structure and governance of transactions) represent specific configurations, which can be understood as constellations of design elements that commonly occur together because their interdependence makes them fall into patterns (Meyer, Tsui and Hinings, 1993).

Eyring, Johnson and Nair (2011) noted that a business model has four parts: (1) the customer value proposition (CVP), (2) a profit formula, (3) key processes and (4) key resources the company must use to deliver the CVP repeatedly and at scale. They noted that in the contemporary market, creating competitive advantage lies in integrating these elements to produce value for both the customer and the company. On the other hand, Magretta (2002) emphasized the importance of fitting all the elements of a business model into a working hole as a valuable planning tool.

Shafer, Smith and Linder (2005) have reviewed the extant literature and identified and classified the main four components of business models cited therein. These components are: (1) strategic choices, (2) the value network, (3) creating value and (4) capturing value. Thus, based on a synthesis of the earlier work of numerous authors, Shafer, Smith and Linder (2005) have defined business models as a "representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network" (p. 202).

Voelpel et al. (2005) have described business models through the basic generic elements: (1) new customer value proposition, (2) a value network configuration for the value creation, and (3) sustainable returns that ensure the satisfaction of relevant stakeholders. Thus, they argued that a business model can be viewed as "the particular business concept (or way of doing business) as reflected by the business's *core value proposition(s) for customers*; its *configured value network* to provide that value, consisting of *own* strategic capabilities as well as *other* (e.g. outsourced/allianced) value networks; and its continued *sustainability* to reinvent itself and satisfy the multiple objectives of of its various stakeholders" (p. 40; italics in original).

Osterwalder and Pigneur (2010) have provided a very useful concept by which business models consist of nine building blocks, namely: (1) customer segments (different groups customers a company aims to serve), (2) value propositions (the bundle of products and services that create value for a specific customer segment), (3) channels (the manner in which a company communicates with and reaches its customer segments to deliver a value proposition), (4) customer relationships (the types of relationships a company establishes with specific customer segments), (5) revenue streams (the cash a company generates from each customer segment), (6) key resources (the most important assets required to make a business model work), (7) key activities (the most important things a company must do in order to make its business model work), (8) key partnerships (the network of suppliers and partners that make the business model work), (9) cost structure (all costs incurred to operate a business model).

As one can conclude, there are numerous approaches and categorizations of a business model structure, which is why it is up to an individual to make a choice regarding the underlying logic of a business model. Nevertheless, after considering the building parts of business models, we focus on implications of business models on a firm's performance. Similarly to the process of strategy formation, business models are not first designed and then implemented, but are more usefully thought of as strategy-as-practice (Mason and Spring, 2011). They are in the process of perpetual changing. It is crucial to constantly renew one's business model in the the contemporary environment. "It is challenging for established businesses to discern the changes that affect them and to appropriately consider and incorporate the factors that have impact on their business models" (Voelpel et al., 2005, p. 42). Therefore, business models can be understood as generative and continuously emerging systems, characterized by structure and dynamics (Mason and Spring, 2011). A firm with a distinct business model that creates more value than that of its rivals holds a potential advantage. Consequently, a business model may affect a firm's performance outcomes (Zott and Amit, 2008).

In their discussion on business models, Kates and Galbraith (2007) have stated that different kinds of business models may be implemented in the same firm (which will ultimately affect its performance). They provided the example of an Internet music site that may operate on a subscription basis (unlimited songs available for some time period fee) or on a fee-per-song basis. Further, academic journals may also provide a very helpful example of the competition between different business models. It is known that some academic journals charge a publishing fee to the authors, while providing their readers a free access to download all or some of the articles. On the other hand, other academic journals do not charge a fee to prospective authors, while charging download of their articles. Of course, other journals do not fall in one of these two categories, but rather somewhere in the middle.

While the choices in creating a business model or some of its parts are almost endless, the final concept ought to be unique in some manner so that a firm can achieve competitive advantage. Teece (2010) argued that having architecture of a business model that is differentiated and hard to imitate, but at the same time effective and efficient, is very important to the establishment of competitive advantage. He noted that the chances for achieving a solid business model design are greater if "entrepreneurs and managers have a deep understanding of user needs, consider multiple alternatives, analyze the value chain thoroughly so as to understand just how to deliver what the customer wants in a cost-effective and timely fashion, adopt a neutrality or relative efficiency perspective to outsourcing decisions, and are good listeners and fast learners" (p. 190).

Markides and Charitou (2004) showed that it is quite possible for a company to have more than one business model. The main challenge for some companies is to balance the benefits of keeping the two different and conflicting business models separate while at the same time integrating them enough to allow them to exploit synergies with one another.

3. Modeling theoretical framework – conceptual integration of strategy and business model

The previous part of this paper has explained the notions of "strategy" and "business model" and indicated basic differences between them. As Shafer, Smith and Linder (2005) have noticed, while a business model does facilitate analysis, testing and validation of a firm's strategic choices, it is not in itself a strategy. Thus, in this part of the paper, the conceptual integration of these two notions is presented. This section begins with a short overview of the literature regarding differentiation and integration of these two notions, which is followed by the presentation of our concept.

Business model is a coordinated plan to design strategy along the customer interaction, asset configuration and knowledge leverage vectors (Venkatraman and Henderson, 1998). Thus, the value of business models lies in their ability to capture important elements of organizational strategy and make them form a coherent and compelling whole (Timmers, 1999). Therefore, a business model is more generic than a business strategy because successful business models very often become shared by multiple competitors. At the same time, selecting a business strategy is a more granular exercise than designing a business model (Teece, 2010).

McGrath (2010) argued that business models suggest a changed way of conceiving, creating and executing strategies. In her view, evolution of business models is a highly path-dependent process. Experiments made early often shape the trajectory for models yet to come. Another frequently cited author in this field, Magretta (2002), also made an explicit differentiation between business model and strategy by arguing that a business model, as a system, describes how the pieces of a business fit together, but it does not take into account competition, which ought to be viewed as a critical performance factor. On the other hand, strategy explains the manner in which a firm will outperform its rivals. Thus, in her words, strategy is about being different.

Even though authors of this article do not agree with some of the aforementioned statements regarding the liaisons between strategy and business model, reviewing various articles on this subject, it comes to mind that understanding differences and points of intersection between strategy and business model depends primarily on the standpoint of strategy formation taken by the author. When one observes a strategy from the point of strategic positioning perspective, he will not be able to differentiate the strategy from the business model. The vast body of literature on business models indicates that the business model concept is seen as a static one (Mason and Spring, 2011), which is why it is often difficult to distinguish it from Porter's competitive strategy (Porter, 1980).

Porter (2001) argued that strategy goes far beyond the pursuit of best practices. It involves the configuration of a tailored value chain, i.e. deliberately choosing a different set of activities required to produce and deliver a product or service that enables a company to offer a unique mix of value (Porter, 1996). This means that the strategy defines a way of competing that delivers a unique value in a particular set of uses or for a particular set of customers. In other words, strategy defines how all the elements of what a company does fit together. This concept is based on the premise that the overall advantage results from all company's activities, not only a few. Thus, if we consider strategy from this point of view, it would be practically impossible to differentiate strategy and business model and we might say that Porter was right when he claimed that the business model concept is not well defined, nor is there theory to support it (Porter, 2001). He has acknowledged the lack of understanding for business models and how they can be differentiated from strategies. "The definition of a business model is murky at best. Most often, it seems to refer to a loose conception of how a company does business and generates revenue" (p. 73).

Obviously taking the stand from another perspective, the prescriptive viewpoint on strategy formation (Mintzberg, 1994b), Osterwalder and Pigneur (2010) have stated that the business model is like a blueprint for a strategy to be implemented through organizational structures, processes and systems. Even Mintzberg, Taylor and Waters (1984) argued in a similar manner that ready-made strategies, i.e. strategies that have been pretested in another organization before they were imposed in the organization in question and made deliberate, can be perceived as a "business model". Clearly, this perspective also does not provide the substantial insight into differences and points of intersection between strategy and business model.[3]

This is why we need to alter the point of view and see the strategy through the prism of the reactive perspective, where strategy presents "a pattern in a stream of decisions or actions" (Mintzberg and McHugh, 1985). In this case, even though strategy represents a consequence of decisions and actions undertaken by management based on their learning, only a view into the past may reveal the true nature of the strategy. In other words, strategy can be discussed and analyzed only *a posteriori*, i.e. after it happend. Thus, only realized strategies can be the object of observation (they represent a specific mixture of intended and emergent strategies).

Obviously taking this standpoint, Casadesus-Masanell and Ricart (2010) noted that business model refers to the logic of the firm, i.e. the way it operates and how it creates value for its stakeholders. On the other hand, they stated that strategy refers to the choice of business model through which the firm competes in the marketplace (a business model can be seen as a reflection of the realized strategy), while tactics refers to the residual choices open to a firm by virtue of the business model that it employs. In other words, strategy and tactics may be regarded as two extreme positions on a continuum, where strategy resides on one side as a choice of business model through which the firm would like to compete and tactics is positioned on the other side where concrete actions are selected within the predefined domain, which is defined by the chosen business model (tactical choices determine how much value is created and captured by the firm).

A helpful insight to this perspective was given by Mitchell and Coles (2003), who argued that "a business model comprises the combined elements of 'who', 'what', 'when', 'why', 'where', 'how' and 'how much' involved in providing customers and end users with products and services" (p. 16). They made a distinction between business model improvement, replacement and innovation, where business model

[3] This is somehow ironic considering that, in our opinion, the right perspective for making a clear differentiation and conceptual integration between strategy and business model stems from Mintzberg's work on strategy formation process, i.e. reactive perspective of strategy formation.

improvement can be seen as changing a single business model element in a way that enhances a company's performance, while business model replacement entails improving at least four of these business model elements. Business model innovation happens when a company makes business model replacements that provide product or service offerings to customers and end users that were not previously available. Thus, their argument is very helpful for the purpose of this paper, because it confirms what has already been noted in the previous part of the paper.

A business model, if seen at one specific moment, is a static form. Perhaps an appropriate analogy would be a picture or a photopgraph. It shows all the important elements of a business and their connections, i.e. it depicts the prevailing logic of a business at one specific moment. However, this does not mean that authors of this paper think of a business model as a static representation of business reality. Business model reflects how important elements in an organization are aligned, i.e. how the value is produced and delivered to the customers. If temporal dimension is induced into this picture, business model becomes a dynamic representation of organizational operating logic. It becomes an objective representation of the reality of the firm and its markets (Mason and Spring, 2011).

From the prism of a business model seen as a set of important business components and their relations at one exact moment, as well as reactive perspective of strategy formation based on learning, depicted in numerous papers by Mintzberg et al. (cf. Mintzberg, 1978; Mintzberg and Waters, 1982; Mintzberg, Taylor and Waters 1984; Mintzberg and Waters, 1984; Mintzberg and McHugh, 1985; Mintzberg, Brunet and Waters, 1986)[4], one can realize that strategy is seen as a set of actions realized in a specific time frame, i.e. a strategy consists of all business models in this specific period. In other words, if a business model does not change over time (which is in majority of industries highly unlikely), a strategy is a reflection of this business model and one could argue that the strategy and the business model are the same thing. In reality, environmental pressures are forcing management to make more or less frequent changes in the prevailing logic of organizational functioning, which means that a business model does change. In this case, a strategy would represent the sum of all business models and their changes within a specified period. In other words, strategy is not a business model, but rather a pattern within which a business model changes. Strategy can be traced historically along some period of time, which means that only one strategy may exist for a firm in a concrete time frame, while there may be countless business models at the same period. Each business model matches the set of functional strategies and their interdependencies, making strategic content in some particular moment, i.e. each business model is actually a bisection

[4] In these papers, Mintzberg et al. have analyzed for a specified time period each functional strategy within a firm in a separated manner, after which they would analyze them again in an integral manner in order to find overall patterns in the major periods of the firm, i.e. overall business strategies.

of the business strategy or a bisection of a set of functional strategies in one concrete moment. Thus, business model has a static and dynamic component (this depends on whether the temporal dimension is included or not), while the concept of strategy cannot be seen as a static one, at least from the viewpoint of some authors (cf. Ansoff, 1965; Mintzberg, 1978, 1987, 1994a, 1994b; Quinn, 1980).

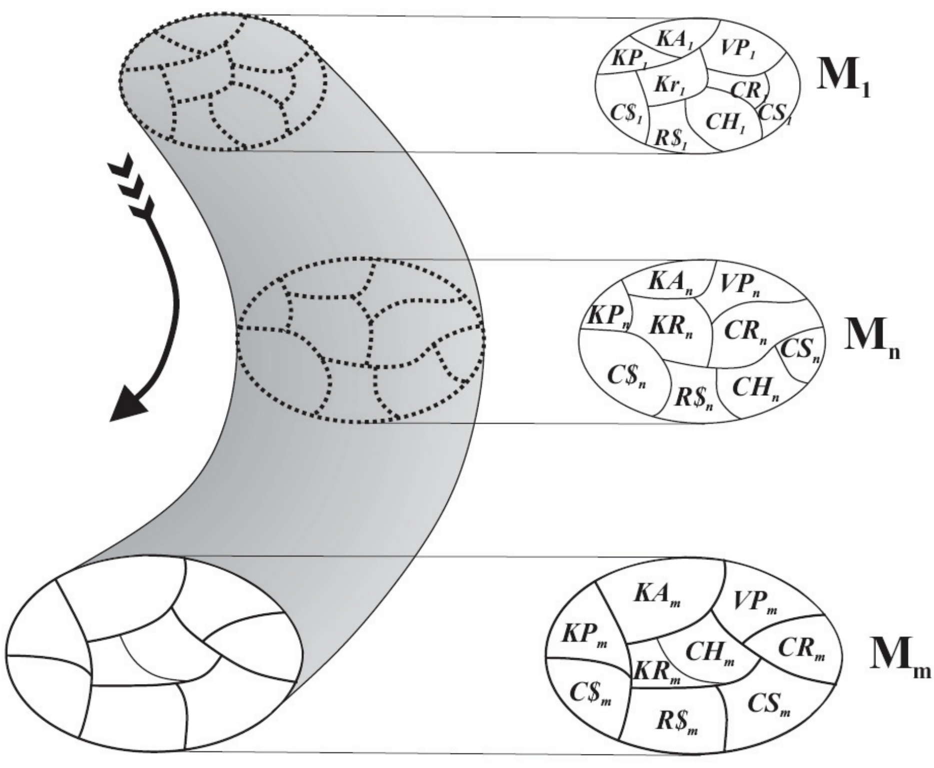
In order to depict this relation from another perspective, one can assume that strategy is represented by a complex vector that stretches through space, which represents the time. This vector is complex because it consists of a set of simple vectors, each representing one functional strategy (set of realized actions within a specific organizational function, such as marketing, finance, human resources, legal, production, logistics, etc). At each moment, i.e. each point of space, one can cut this complex vector (i.e., a business strategy consisting of a set of functional strategies) and look at the bisection. What he will be able to see is a business model at one specific moment, consisting of a set of elements, each representing actions taken by a specific organizational function in that concrete moment. In other words, a business strategy is a result of changing the prevailing logic of business, i.e. the changes of business models. On the other hand, a business model is always changing. It is necessary for the prevailing logic of doing business to keep changing in order to keep pace with the changes in the environment. A firm's business model is never complete as the process of making strategic choices and testing business models should be ongoing and iterative (Shafer, Smith and Linder, 2005).

In order to illustrate the conceptual integration of strategy and business model, Osterwalder and Pigneur's (2010) already discussed view of business model is used. The figure 1 depicts this conceptual integration. It ought to be mentioned that for each element of the model an acronym is used: (1) customer segments (CS), (2) value propositions (VP), (3) channels (CH), (4) customer relationships (CR), (5) revenue streams (R$), (6) key resources (KR), (7) key activities (KA), (8) key partnerships (KP), and (9) cost structure (C$). Figure 1 depicts three different business models as conglomerations of its elements in different periods of time, i.e. three different bisections of strategy on the temporal dimension, where each model is given an index: (1) a business model in the beginning of a period of strategy observation (M_1), (2) a business model somewhere in the middle of the observation period (M_n), and (3) a business model at the end of the observation period (M_m).

The conceptual integration between strategy and a business model can be traced along one dimension, which is the time. The temporal dimension represents a strategy that includes a set of different business models if they were changing over time or a strategy that consists of a single business model if it had not been subjected to any kind of changes. In reality, change of a business model is always occuring to some extent, but the magnitude of the change depends primarily of the observer's perspective and the time period over which the observation takes place. "If you examine small details close in, you see much more change than if you attend to large phenomena or high-level descriptions, or perceive from afar... The time period over which one assesses the extent of change matters as well. Change often takes time, and slow change takes time to build something readily perceptible... Examining only a snapshot of time... would not have revealed the enormity of the eventual change." (Helfat and Winter, 2011, p. 1245)

Nevertheless, the distance of an observer from the picture he looks at will ultimately determine what he will see: a motion picture (strategy in terms of multiple business models or one business model) or a static picture (business model). As he zooms in the picture in front of him, he will be able to see more detailed action in a shorter time frame. At one point he will be looking at a concrete business model in a very short period of time, he will be able to see frozen actions or static elements and their connections. On the other hand, as he zooms out, these elements will start moving, inducing the dynamics in the picture and he will be able to see a bigger picture, i.e. less detailed actions will be lost from his sight, but some specific pattern of actions will eventually emerge. Thus, he will be able to track the strategy of the firm he observes.

Figure 1: Conceptual integration of strategy and business models



Source: Authors

This conceptual integration of strategy and business model is in line with Tikkanen et al. (2005), who argued that the function of strategy is to give a meaning and direction for the development of the company's business model. Following Mintzberg and Waters (1982), they have seen strategy as a comprehensive pattern of a company's actions and intents binding together all the components of the business model.

4. Results and discussion

The literature on business and strategic management is filled with attempts from numerous authors trying to make a conceptual relationship between a business model and strategy, but without any significant results (e.g. Casadesus-Masanell and Ricart, 2010; Markides and Charitou, 2004; Shafer, Smith and Linder, 2005). Even though the notions of strategy and business model are very clear if they are seen as separate entities, somehow the clarity of their conceptual integration has been left out. The rationale for the misconception of numerous authors regarding the conceptual integration of these two notions offered in this paper is that they have not taken a desirable standpoint.

It has also been discussed that each organization has a strategy, as well as a business model, whether its management is aware of it or not, contrary to the statements of some authors; e.g. Casadesus-Masanell and Ricart (2010) have claimed that while every organization has some business model, not every organization has a strategy. Nevertheless, this claim can be justified because these authors have taken the view on a strategy as a plan of actions, which is not a valid viewpoint if one wants to make a distinction between a strategy and a business model. Thus, taking a valid perspective for observation of strategy is crucial for distinguishing strategy from a business model, as well as for their conceptual integration depicted in this paper.

It has been argued that when one observes *a strategy* formation process from the point of strategic positioning perspective, he would not be able to differentiate the strategy from the business model. On the other hand, the prescriptive viewpoint on strategy formation also does not provide the substantial insight into differences and points of intersection between strategy and business model. This is why one needs to take a different standpoint, namely the reactive perspective of strategy formation. This perspective takes a historical view on strategy, but also acknowledges managers as proactive creators of organization' destiny. In other words, strategy can be discussed and analyzed only *a posteriori*, i.e. after it happened. Seen through these lenses, strategy becomes clearly differentiated from a business model, and one can realize that strategy is a set of actions realized in a specific time frame by a concrete organization, i.e. a strategy consists of all business models in this specific period.

Simply put, the main result of this paper is a conceptual model according to which a business model is a bisection of a strategy. Each business model matches the set of functional strategies and their interdependencies (a business strategy) in some particular moment, i.e. each business model is actually a bisection of the business strategy or a bisection of a set of functional strategies (which comprise a business strategy) in one concrete moment.

5. Conclusion

Based on everything said in this paper, it may be concluded that the hypothesis provided at the beginning of the paper is accepted. In other words, strategy and business model are two inseparable entities that may be presented in an integrated manner through a conceptual model. This model depicts strategy as a pattern within which a business model changes, i.e., a strategy represents the sum of all business models and their changes within a specified period. Thus, a business model can be perceived as a bisection of strategy. Therefore, it may be stated that the objective defined at the beginning of the paper is achieved. The conceptual model that depicts integration of strategy and business model in an organization is determined and hopefully it will be used as a solid foundation upon which other authors may continue to build novel theoretical concepts, as well as a set of guidelines for further empirical research on this subject. The results obtained in this paper have a clear contribution for organizational theory. For the first time, strategy and business model are seen unambiguously as inextricably intertwined entities. The conceptual model presented herein indicates the nature of their relationship, which presents a solid foundation for the further development of the concept of dynamic capabilities and organizational routines. Hopefully, the model presented will facilitate more in-depth knowledge in these areas of research. On the other hand, this paper provides a contribution for the practitioners as well. Understanding the concept presented herein enables managers and other practitioners to perceive the actions they take and their prevailing logic of doing business in a more integrated manner. The actions taken today, which will form a strategy eventually, will have an impact on the prevailing business logic, i.e. the business model. Conversely, implementation of a concrete business model will affect the actions in the future, thus modeling the strategy. This model will help managers and other practitioners to grasp the complexities of organizational reality in terms of strategy – business model relationship.

Nevertheless, this paper suffers from one severe limitation. The paper that is relied upon a theoretical method automatically suffers from the lack of empirical investigation that would directly support the conclusions. Even though this paper in the literature review section includes results from numerous studies conducted in order to determine the nature of strategy and business model, it is necessary to test the validity of the presented conceptual model in at least several rigorously designed and conducted empirical studies, which has been out of reach for the authors of this paper.

Authors are hoping that this paper will present a solid foundation upon which other authors can continue to build novel theoretical concepts. On the other hand, they are also hoping that this paper may present a set of guidelines for further empirical research on this subject. For example, it would be highly recommendable for other prospective contributors to provide empirical evidence on how this conceptual model fits the successful companies. On the other hand, the construction of more comprehensive conceptual models that will expand this model and include other contemporary organizational and strategy concepts, such as dynamic capabilities or organizational routines, would be most welcome. Only thorough understanding of the nature of strategy and business model, as well as their integrative framework, will enable scholars and practitioners to continue developing novel and innovative strategies and business models for organizations to thrive in the age of discontinuity. Although the findings presented here are certainly of a tentative nature, they do suggest the importance of further research on the topic.

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O konceptualnoj diferencijaciji i integraciji strategije i poslovnog modela

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Sažetak

Cilj ovog rada jest razvoj konceptualne integracije strategije i poslovnog modela. Teorijska metoda je primijenjena kako bi se postigao ovaj cilj. Razvoj teorije dovodi do izgradnje konceptualnog modela koji povezuje strategiju i poslovni model, ukazujući na prateću logiku. Glavni zaključak je da je strategija obrazac unutar kojeg se poslovni modeli mijenjaju. Samo jedna strategija može postojati za tvrtku u konkretnom vremenskom okviru, dok istovremeno može postojati bezbroj poslovnih modela u istom razdoblju. Stoga, strategija predstavlja zbroj svih poslovnih modela i njihove promjene u određenom roku. Svaki poslovni model odgovara skupu funkcionalnih strategija i njihovoj međusobnoj ovisnosti, definirajući strateški sadržaj u nekom određenom trenutku, tj. svaki poslovni model je zapravo poprečni presjek poslovne strategije ili skupa funkcijskih strategija u jednom konkretnom trenutku. Specifičan doprinos prezentiran u ovom radu može se razumjeti samo ako se zauzme odgovarajuća perspektiva u vezi sa procesom formiranja strategije. U pitanju je tzv. "reaktivna perspektiva".

Ključne riječi: *strategija, poslovni model, strateški proces, strateški menadžment*

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