ABSTRACT

Business literature has paid a remarkable deal of attention to the growth of the firm. Despite the enormity of research about this phenomenon the role of business model in this context has surprisingly received little attention. In some cases, it has also been mistakenly equated with the strategy of the firm. In this research the authors address these two issues in two steps. First the authors clarify the concept of business model and distinguish it from the concept of strategy. Second the authors show what roles these two can play in the growth of the firm separately and jointly. Therefore this research can serve two purposes: 1) to advance understanding of growth as a complicated phenomenon from the perspective of business model and its interactions with strategy and 2) to provoke further empirical and theoretical research on this emergent area of inquiry. The main conclusion drawn from this analysis is that, although business model is not strategy however these two are intertwined and their interactions form the underlying assumptions by which a firm grows.

INTRODUCTION

Growth of a firm is a central phenomenon in economics, sociology, business and management literature (Wolcott, and Lippitz, 2010). It is a broad concept which refers to growth at firm and industry level. At the industry level attention is given to ecological factors and population dynamism (Harrison, 2004). It focuses on the increase and decrease in population of firms. So, growth may refer to both organizational decline (i.e. negative growth) and positive growth in the form of an increase in the number of firms in an industry (Whetten, 1987). At the firm level, however, growth basically refers to an increase or decrease in the size of a firm in terms of its assets, market share, number of employees and overall profitability (Delmar, 1997). So growth is a key performance indicator (Weinzimmer, Nystrom, and Freeman, 1998). Although these two levels are interconnected through this simple explanation that, those firms which grow are more likely to survive longer and those which don’t tend to die out and thus impact the dynamism of growth in a population of firms in an industry. However, the focus of this study is narrowed towards the firm-level growth and the industry level debate goes beyond the scope of the present research.

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tudes (Cliff, 1998), breakthrough innovations of a firm (Barnholt, 1997), strategies including diversification and differentiation (Lichten-thaler, 2005; Iacobucci, and Rosa, 2005), technological resources and competencies of the firm (Clarysse, Wright, and Van de Velde, 2011), marketing strategies such as customer orientation (Zahay, and Griffin, 2004), product market choices (Cardozo, et al. 1993) and proactive market moves (Hughes, and Morgan, 2007) and also financial incentives in a firm (Toledo, de la Paz Hernandez, and Griffin, 2010). Despite the enormity and diversity of research about the growth of the firm, many aspects of growth are still unexplained in the literature (Lockett, et al. 2011). In the wake of this knowledge deficiency the role of business model of the firm as an important concept seems to be ignored or at best underemphasized in the growth literature.

This deficiency can be attributed partly to the fact that, business model concept is relatively new to the literature and hence its conceptual and theoretical position have not fully crystal-lized (George and Bock, 2011) and partly to this notion that, scholars have misconceived or misinterpreted the concept of business model and as a result prevent it from reaching its full conceptual and theoretical potential (Zott, et al. 2011). Recent studies however show an increasing recognition amongst scholars that, business model could stand out as a unique concept and specifically a useful unit of analysis for understanding various behaviors of firms (Zott, et al. 2011). Following this trend, this study aims to develop a conceptual bridge between growth and business model literature by addressing the question of ‘how knowledge of firms’ growth can be advanced from the perspective of business models?’ We subsequently address this question by demonstrating what role the business model of a firm plays in its growth and how business model of a firm and its strategies interact to stimulate and enact growth.

The business model-strategy relationship was deliberately chosen simply because; literature in business model shows an enduring confusion between business model and strategy of the firm (Teece, 2010; Porter, 2001; Casadesus-Masanell, and Ricart, 2010). Given this rationale, it is believed that this essay offers two contributions to the existing literature. First, it furthers understanding of growth as a complicated phenomenon by explicitly incorporating the notion of business model into growth literature and providing testable arguments for further investigations and secondly, it enriches the business model literature by clarifying the differences and similarities between business model and strategy concepts and developing a grounded explanation for their interactions.

Having said the above, this essay proceeds as follows: In the next section, growth of a firm from managerial view also known as Penrosian theory is overviewed. This view is the prevailing view in the existing literature. Then building on the arguments from the managerial view, the concept of business model is explained. This section is followed by an overview of strategy in order to illuminate distinctions between business model of the firm and its strategy. In the following section, the interactions between business model and strategy are explained within the context of growth in order to show how business model and strategy contribute to the growth of the firm separately and jointly. Finally, in the last section results of the analyses will be concluded, contributions of the research will be presented and some potential areas for future research will be highlighted.

**GROWTH: A MANAGERIAL VIEW**

Theory of the growth of the firm (TGF) was introduced by the Edith Penrose (1959) based on a number of studies about how large firms in the Europe and the US grew domestically and internationally after world war two (Penrose,1952, 1955). This theory is perhaps the most praised and comprehensive theory of the growth in the neo-classical economics (Lockett, et al. 2011). TGT attributes growth of the firm to the roles of mangers and specifically administrative services that they bring to the