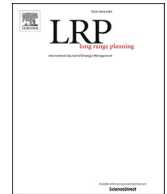




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## Managing complexity in a multi-business-model organization

Yuliya Snihur <sup>a</sup>, Jorge Tarzijan <sup>b,\*</sup><sup>a</sup> Toulouse Business School, University of Toulouse, 1, Place Jourdain, 31068 Toulouse, France<sup>b</sup> Pontificia Universidad Catolica de Chile, Vicuña Mackena 4860, Santiago, Chile

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### ABSTRACT

Many organizations operate multiple business models (BMs) concurrently. Yet, we know little about the challenges of managing a BM portfolio in one organization. In this study, we examine complexity as an important issue facing multi-BM firms. We differentiate complexity *within* a single BM from the complexity of links *between* BMs managed by a focal organization. Linking the BM and corporate strategy literatures, we discuss important dimensions and consequences of complexity in a BM portfolio. The sharing of similar activities and partners and the redeployment of activities and partners across BMs are important dimensions of the complexity of an integrated BM portfolio. We also suggest that BM portfolio complexity should be aligned with organizational design in terms of the centralization or decentralization of the decision-making process, and identify the positive effect of BM portfolio complexity on building imitation barriers.

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### Introduction

Corporate strategy has traditionally focused on the main strategic choices faced by multi-business organizations that seek to create competitive and corporate advantages. These strategic choices are the determination of the firm scope (i.e., the selection of specific business units or product domains) and the management of individual domains (Eisenhardt and Piezunka, 2011; Porter, 1987). With the advent of the business model (BM) as a new and different unit of analysis (Casadesus-Masanell and Zhu, 2013; Zott et al., 2011), the role of corporate strategy can be also conceptualized as focused on the strategic decisions faced by multi-BM organizations. These decisions particularly concern the choice of specific BMs to operate and the management of several BMs within the firm's BM portfolio.

We posit that complexity is an important factor to consider for firms managing a multi-BM portfolio. Complexity is generated by the number of activities and partners in such a portfolio and the number of interdependencies between them (Kauffman, 1993; Simon, 1962). A growing number of interdependencies increases the coordination requirements among activities and partners and the complexity of a system, whereas a higher number of activities and partners also raises the complexity because it increases the likelihood of interactions among them (Larsen et al., 2013). The lack of academic analysis of complexity in a multi-BM setting is surprising, given that complexity has long been part of the research tradition in corporate strategy (Nickerson and Zenger, 2004; Williamson, 1975). It is important and timely to examine the challenges of managing BM portfolios because firms have been actively adding BMs—such as online retail, discount, or sponsor-based—to improve performance in a variety of industries (Kim and Min, 2015; Sabatier et al., 2010; Santos et al., 2015).

To fill this gap, we analyze the dimensions and consequences of complexity in multi-BM organizations using three relevant theoretical lenses. To define complexity at the BM portfolio level we draw on the theory of complex adaptive systems

\* Corresponding author.

E-mail addresses: [y.snihur@tbs-education.fr](mailto:y.snihur@tbs-education.fr) (Y. Snihur), [jtarzija@uc.cl](mailto:jtarzija@uc.cl) (J. Tarzijan).

(Anderson, 1999; Kauffman, 1993; Rivkin, 2000). To analyze the dimensions of complexity we extend the insights from corporate strategy on strategic similarity, sharing, and redeployment (Capron et al., 2001; Helfat and Eisenhardt, 2004; Sakhartov and Folta, 2014) to the BM level. Finally, to theorize about the consequences of complexity we incorporate insights from organizational design theory (Galbraith, 1973; Fjeldstad et al., 2012; Zhou, 2011).

We explain that the relevant complexity type in an autonomous BM portfolio (with no interdependencies between the different BMs of the same organization) is the *within* complexity, inherent in individual BMs of the portfolio, while in an integrated BM portfolio (when there are interdependencies between activities and partners of different BMs) the relevant complexity type is the *between* complexity, stemming from interdependencies between the elements of the different BMs. We argue that sharing of similar activities and partners and redeployment of activities and partners across the BMs in an integrated portfolio limit the increase in *between* complexity in cases of integrated management.

Our analysis of BM portfolio complexity seeks to add to the business model, corporate strategy, and organizational design literatures. We enrich corporate strategy research by comparing and contrasting business unit (BU)-based and BM-based organizations. We also discuss how the level and type of BM portfolio complexity have to be aligned with organizational design and identify the positive effect of BM portfolio complexity on building imitation barriers. The detailed conceptualization of complexity in a multi-BM organization enables us to provide specific guidelines for managers, direct future research, and suggest how to operationalize the proposed constructs.

To begin, we define the BM as an activity system and discuss multi-BM organizations from this perspective. Then, we discuss the implications of using the concept of BM as a new unit of analysis for multi-BM organizations and differentiate it from a more traditional BU-based analysis. Next, we formalize the concept of complexity and disentangle its dimensions in multi-BM organizations. The analysis then turns to the consequences of complexity for the design of organizational structure and the likelihood of imitation by competitors. Finally, we draw attention to the theoretical and managerial implications of considering complexity in multi-BM organizations and suggest avenues for future research. To illustrate our arguments, we use LAN Airlines as our primary example.

## Business models and multi-business-model organizations

### *The business model as an activity system*

We follow the activity system perspective, based on the work of Zott and Amit (2010: 216), who define the BM as “a system of interdependent activities that transcends the focal firm and spans its boundaries. The activity system enables the firm, in concert with its partners, to create value and also to appropriate a share of that value.” This perspective analyzes activities as the building blocks managers (or entrepreneurs) use to design BMs, or particular activity systems. Managers can choose which activities the firm performs, how they are linked, and who performs them (i.e., the firm or its partners). This perspective also echoes Porter’s discussion of the firm as composed of a set of activities (Porter, 1987; Porter and Siggelkow, 2008).

Several authors agree that activities are an important building block of a BM (Casadesus-Masanell and Ricart, 2010; Gambardella and McGahan, 2010; McGrath, 2010) and that the firm can perform different sets of activities alone or together with partners (Amit and Zott, 2001; Chesbrough, 2010; Desyllas and Sako, 2013). We develop our understanding of issues facing companies that manage several distinct activity systems, or BMs, from the activity system perspective.

### *The business model as a new unit of analysis for corporate strategy*

After an important effort to define the BM concept, scholars have begun to study the implications of using the BM as a new unit and level of analysis in different contexts. Studies have looked at the drivers of BM design and innovation (Amit and Zott, 2015; Hienerth et al., 2011; Osiyevskyy and Dewald, 2015; Sanchez and Ricart, 2010; Sosna et al., 2010), competition and replication of BMs (Casadesus-Masanell and Zhu, 2013; Winter and Szulanski, 2001), and their performance consequences (Brea-Solis et al., 2015; Visnjic et al., 2016; Zott and Amit, 2007). However, relatively few studies have considered the BM as a new and potentially useful unit of analysis for corporate, rather than business, strategy issues (Ahuja and Novelli, 2016; Aversa et al., 2015; Casadesus-Masanell and Tarzijan, 2012). These studies usually observe that incumbent firms in various industries add BMs to improve performance and to compete more effectively with rivals (e.g., Markides and Oyon, 2010; Santos et al., 2015).

A firm’s choice to manage multiple BMs can be a response to the inadequacy of existing BMs to exploit new opportunities (Berends et al., 2016; Markides, 2015) or a reaction to competitors introducing new BMs (Ahuja and Novelli, 2016). In such cases, firms incorporate distinct BMs into what we call a BM portfolio, or a set of different BMs operated by the same organization. Several authors study firms that compete simultaneously with multiple BMs: Aversa et al. (2015) discuss how firms involved in Formula One racing operate two BMs concurrently, selling technology to competitors, and developing and trading human resources with competitors; Osiyevskyy and Dewald (2015) describe how some Canadian real estate brokers combine discount real estate brokerage with their traditional BMs; and Kim and Min (2015) comment on several retailers that add an online retailing BM to their BM portfolio. Despite the fact that the addition of a BM to the firm’s BM portfolio might have significant performance consequences for the focal firm (Aversa et al., 2015; Kim and Min, 2015), the challenges of managing multiple BMs have not been studied in the detail they deserve. We argue that the complexity of the BM portfolio is an important factor to consider when managing multiple BMs.

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