Managing an Internal Platform to Enhance Value Co-Creation Activities

Mikko Hänninen, Olli Rusanen and Lauri Paavola

Abstract

This paper provides an empirical example of an internal platform and how to manage such an organization to improve value co-creation. Platforms have received notable attention from academics and practitioners in the past few years as digitalization has fueled the advent of platforms in several industries (e.g. van Alstyne et al. 2016; McIntyre & Srinivasan 2017). Traditionally literature on platforms has however mainly focused on the engineering and economics contexts (e.g. Gawer 2014). One stream of this literature, internal platforms, looks at how platforms are formed inside one focal organization, closed for external participants. This stream of literature has however received less empirical support than other platform literature streams. For example, Gawer (2014) calls for more empirical research in the context of internal platforms, with most research in this domain focusing on the product development and engineering context (e.g. Sanderson & Uzumeri 1997; Simpson 2004). In this paper, we address this theoretical and empirical gap related to internal platforms by providing an empirical example of internal platforms from the retail context. We study how an internal platform is managed, looking at the transformation of a co-operative retailer we dub an internal platform, during the 1980's and 1990's. A single case study is used to study how an internal platform is managed and how the focal organization was able to shift from a crisis organization in early 1980's with a history of inability to change to an efficient internal platform by the mid 1990's. We identify three building blocks taken by the central organization of the co-operative that provided the foundation for future success; 1) the divestment of value-destroying and non-valuable resources, 2) preventing exploitative use of resources and 3) enabling participants to identify and create new activities. Through our single case study, we provide future research avenues to the internal platform stream of literature and invite further empirical research that looks at platforms in different contexts.

Keywords: platform, internal platform, retail, strategic management

Extended Abstract

During the past few years, platform theories have received notable attention and expansion from academics as digitalization has spawned the creation of multi-sided platform based business models across a wide range of industries (e.g. Gawer 2014; van Alstyne et al. 2016; McIntyre & Srinivasan 2017). At the heart of platform thinking is a collaborative network where a platform provides an interface that is open for external complementors to create applications to (e.g. Adner & Kapoor 2010; Autio & Thomas 2014). Firms such as Apple, Facebook and Google are often used as examples of firms that orchestrate a platform that allows for value creation and innovation within a network of firms or complementors (e.g. van Alstyne et al. 2016). However, due to the strong influence of the economics and engineering schools of thought, platform research has so far studied extensively price setting and network externalities as well as technological infrastructures (e.g. Gawer 2014; Gawer & Cusumano 2014; Tiwana 2013), leaving the intra-firm, internal platform, context with less theoretical

---

M. Hänninen
Aalto University School of Business Department of Marketing, Helsinki, Finland
email: mikko.o.hanninen@aalto.fi

O. Rusanen
Aalto University School of Business Department of Marketing, Helsinki, Finland

L. Paavola
Aalto University School of Business Department of Management Studies, Helsinki, Finland

and empirical advances. Despite the Gawer (2014) definition of an internal platform, empirical studies in the internal platform context are still largely missing.

Regardless of the type of platform, value creation in platform ecosystems takes place in the interaction of platform participants. A platform ecosystem is a network of participants consisting of the platform owner, complementors and users (e.g. McIntyre & Srinivasan 2017) with a platform's role defined as facilitating the interaction between these different user groups. Autio & Thomas (2014) describe platforms through architectural leverage where the platforms are designed to achieve high impact with little input from the platform owner to generate high profit for the platform owner. The question of management of an internal platform is particularly interesting and not fully addressed in the existing platform literature outside of the product development and supply-chain platform contexts (e.g. Gawer & Cusumano 2014; Eloranta 2016). In this paper, we characterize a firm as a platform through the framework by Gawer (2014) where the headquarters orchestrates value creation, similar to a platform owner, by providing the modules on top of which the organizations other stakeholders can create value-added to.

This paper is built upon a single case analysis (e.g. Yin 1994) with the qualitative analysis using coding to analyze the plentitude of data sources (e.g. Gioia et al. 2013). As the coding technique, a Gioia-analysis is used for creating theory that emerges from the data and showing the results visually. In such an analysis, the researchers aggregate data to first-order concepts, which are then grouped to second-order themes. Finally, the second-order themes are combined as theoretically relevant, aggregate dimensions (Gioia et al. 2013). As Burgelman (2011) argues, theory generation requires avoidance of theoretical preconceptions and constant comparison, coding and analysis between theory and data. A Gioia-analysis is helpful for achieving these ends since it aggregates raw data into theoretically relevant findings.

In our study we focus on providing an example of an internal platform from the retail sector. The single case study shows that the inability to effectively maximize the benefit of an internal platform structure can cause significant problems and sub-optimization. Through the steps taken by the management throughout the 1980's and 1990's, our single case organization S-Group, was able to shift away from decades of sub-optimization and become an efficient internal platform where value was actively co-created amongst participants. Through this transformation, S-Group was able to find new competitive advantage from several strategic initiatives launched at the time which helped paved way for the organizations future success.

As there is no fixed definition for platforms (e.g. Gawer 2014), platform logic can be applied to organizations from several different contexts and industries. This paper is one step towards extending the internal platform stream of literature to also cover platforms outside of the product development and engineering contexts. We also generate new understanding and further research opportunities on internal platforms especially from the managerial point of view. Through a single case study of an internal platform, S Group, we show how the management of the platform was able to create the building blocks through an organizational transformation that served as the foundation for an efficient internal platform. By 1996, S Group was a platform where participants actively cooperated with each other and after decades of sub-optimization it was able to find efficiency through its platform structure and eventually become the market leader in the Finnish grocery retail market by the mid-2000's. Overall, the S Group internal platform is not a specific organizational structure similar to the definition by Ciborra (1996), but more a virtual organizing structure embedded across the organization. This virtual structure enabled decentralized parts to experiment and share new initiatives with each other and the headquarters to expand successful initiatives often leading to unconventional results similar to the case of Olivetti (e.g. Ciborra 1996). There are also repercussions for management. For example, in an internal platform like our single case study organization S Group, the central organization had to constantly shuffle between the group level interests and the interests of each individual co-operative. This makes managing such an organization difficult.

Our single case study provides one example of an internal platform in the retail sector and of how such an internal platform can be managed to create more efficiency. Through the organizational transformation that took place between 1983 and 1996, SOK management was able to create three building blocks; 1) the divestment of value-destroying and non-valuable resources, 2) preventing exploitative resource-usage and 3) enabling participants to identify and create new activities, which created the foundation for an efficient internal platform enabling the future success of the organization.

First, SOK management started the process of divesting value-destroying and non-valuable resources across the group. We refer to resources as the firm resources, including all the assets, capabilities, organizational processes, firm attributes, information and knowledge that improve its efficiency and effectiveness (e.g. Barney 1991). By choosing to focus on the grocery retail sector as the flagship industry for S Group, the organization was able to slowly get rid of the diversified businesses it owned in order to develop a clear strategic direction for the future. The layoffs and forced mergers of co-operatives in the 1980’s helped streamline operations and although the process was slow, it allowed change to concretely come to the organization. Coming into the 1990’s, S Group had a clear business portfolio in grocery retail through its national retail chains. SOK created the chain concepts, and the co-operatives ran the chains according to standardized principles with some modification to adjust for regional customer preferences.

Secondly, SOK created and enforced new rules and practices to address the problem of sub-optimization. The successful information gathering in the early 1980’s had allowed SOK to finally understand the weak financial position of the S Group, and the necessary changes were put in place fairly quickly by the new management. Both the launch of Inex Partners and the new rules that made the co-operatives profit centres in S Group resulted in a mind-set change. The increased power of the SOK board and the reshuffling of co-operative CEO’s, resulted in each regional co-operative following the agreed strategy. This was crucial as although each co-operative was autonomous, by the end of the 1980’s the exploitative resource usage had stopped and decisions were made on a group level.

Thirdly, SOK management started the process of identifying and creating new activities across the S Group. By activities we mean any action undertaken by S-Group’s employees/stakeholders for the purpose of generating profits or developing economic opportunities. Previously there had been little coordination between what was done at the central organization and in the cooperatives. By the late 1980’s S Group was finally systematically developing new concepts such as hypermarkets and the bonus system. Although both were not entirely new concepts as they had been piloted before, the previously dysfunctional structure meant that information about these trials had not flown across the organization and the potential benefits of these activities thus not realized.

Overall, we contribute to platform literature by providing an empirical example of an internal platform and how it can be managed to increase value co-creation. So far, research on internal platforms has focused almost exclusively on product platforms and empirical examples from the product development. This paper however is the first to expand this stream of platform literature outside the product development and engineering context, studying a co-operative retail organization as an internal platform. Based on our single case study, we suggest a few topics for further research in this domain. First, future research could examine how platforms in different contexts evolve over time. Our study provides one example of how an organizational transformation including the divestment of unprofitable businesses and structural change was needed in order to maximize the efficiency of the platform. Secondly, future research could focus on the relationship between the platform owner and the platform participants. Our study provides an example of how the platform organization became efficient once the headquarters had taken a more active role as a support function for the platform participants, for example after it no longer was allowed to make a profit of its own. Finally, future studies could focus on understanding the internal dynamics of an internal platform organization. We suggest that efficient internal platforms require a culture where each stakeholder including middle-management can propose, plan and initiate new strategic initiates. Our study provides an example of how the lack of this kind of culture had resulted in sub optimization as each platform participant aimed to maximize the value of their own unit rather than contribute to maximizing the value of the whole platform.

Although as a single case study this paper has its limitations in terms of generalizability, we draw some reasonable managerial implications from the study. A platform like organization such as the single-case study we have introduced in this paper, requires new capabilities from managers as they need to constantly juggle between the interests of the individual platform participants and the platform as a whole. In our single case study, a mind-set shift was required so that it was possible to make decisions that maximized the value of the total organization, even if one part may have suffered as a result. As by definition, a platforms value is generated through the sum of the interactions and exchanges taking place in the ecosystem, management needs to make sure that the platforms participants do not sub optimize or exploit other parts of the platform. In a complex organization such as in the single case study presented in this paper, this is easier said than done.

References

Adner, R. and Kapoor, R., 2010. Value creation in innovation ecosystems: How the structure of technological interdependence affects firm performance in new technology generations. Strategic management journal, 31(3), pp.306-333.

Autio, E. and Thomas, L., 2014. Innovation ecosystems. The Oxford handbook of innovation management, pp.204-288.

Barney, J., 1991. Firm resources and sustained competitive advantage. Journal of management, 17(1), pp.99-120.

Burgelman, R.A., 2011. Bridging history and reductionism: A key role for longitudinal qualitative research. Journal of International Business Studies, 42(5), pp.591-601.

Ciborra, C.U., 1996. The platform organization: Recombining strategies, structures, and surprises. *Organization science*, *7*(2), pp.103-118.

Gawer, A., 2014. Bridging differing perspectives on technological platforms: Toward an integrative framework. *Research Policy*, *43*(7), pp.1239-1249.

Gawer, A. and Cusumano, M.A., 2014. Industry platforms and ecosystem innovation. Journal of Product Innovation Management, 31(3), pp.417-433.

Gioia, D.A., Corley, K.G. and Hamilton A.L., 2013. Seeking Qualitative Rigor in Inductive Research: Notes on the Gioia Methodology. Organizational Research Methods, 16(1), pp.15-31

McIntyre, D.P. and Srinivasan, A., 2017. Networks, platforms, and strategy: emerging views and next steps. Strategic Management Journal, 38(1), pp.141-160.

Sanderson, S. and Uzumeri, M., 1995. Managing product families: The case of the Sony Walkman. *Research policy*, *24*(5), pp.761-782.

Simpson, T.W., 2004. Product platform design and customization: status and promise. AI EDAM: Artificial Intelligence for Engineering Design, Analysis and Manufacturing 18 (1), 3–20.

Tiwana, A., 2013. Platform ecosystems: aligning architecture, governance, and strategy. Newnes.

Van Alstyne, M.W., Parker, G.G. and Choudary, S.P., 2016. Pipelines, Platforms, and the New Rules of Strategy. Harvard Business Review ,94(4), pp.54-60.

Yin, R. K. 1994. Case Study Research – Design and Methods, Second edition. Thousand Oaks, US: Sage Publications.