

EXPANSION AND CONTRACTION OF BUSINESSES THE MODEL OF CO-EXTENSION OF BUSINESS SPACES

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Abstract: *The present study is aiming at the identification of the business development model in the era of globalization. The new dynamic model of human enterprises in the era of globalization is a co-extensive one and it covers a wide range of enterprise typologies from those of simple individual exposure-type (the spread of Facebook is just a typical example) to the business-driven ones. Thus, we may denote a co-extension of business spaces, leading to an entirely inadequate classical socio-economic discourse. The expansion and contraction of human businesses get into a ratio of inadequacy with the logic of classical economic discourse. We will refer to the logic of business expansion as to the one of a process of segmentation. The phenomenon of market segmentation was thoroughly analysed by P. Drucker who drew attention on the fact that the consumer demand is not homogeneous, but rather segmented. The consumer demand is not over and over the same, but it is rather going through a process of progressive segmentation towards a hardly-to-evaluate critical limit. The very difficult prediction of any segmentation gives the turbulent nature of such process. This study is focused on theoretical and methodological developments of the human businesses expansion model leading us towards a reconsideration of the paradigm of research within the three curriculum offers: organizational ecology, sociology of networks, moral economy of businesses.*

Key concepts: *business space, alternating spacing, eco-economy of businesses, firms' selection strategies (r-selection, K-selection), dot.com, co-extensive spaces, surviving of the firms, eco-economy of capitals*

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Dynamic of businesses between the moral economy and sociology of networks

The paradigms of running the businesses, along with the logic of economic and social discourse, are influenced by the transformations of the world in the era of globalization. The logic of economic discourse is trapped in a reality that various scholars helped to create it. Systems of economic theory had created its reality within the self-fulfilling pseudo-logic prophecy:

“The actors within the process—or at least some of them—fail to understand how their own belief has helped to construct that reality; because their belief is eventually validated, they assume that it had been true at the outset.”²

Such a misapprehension might explain the phenomenon of business expansion in multiple spaces that rather seem to be disconnected from the present logic of economic discourse. The unprecedented expansion of businesses in the virtual spaces is, at least, questioning the validity of the actual socio-economic discourse. Thus, we are confronted with a special issue, belonging to the model of firms' expansion and, consequently, a model of expanding and contraction of business spaces. The aim of the current study is to research the dynamic model of business spaces in the context of challenging the fields of on-line businesses (i.e. virtual businesses). Our analysis is based on the intersection between the moral economy³, the ecology of businesses (i.e. a research direction on the problematics of organisational ecology as developed by Hannan and Carrol) and the sociology of networks (the virtual spaces) within the context of foreshadowing a new approach proper to moral eco-economy and sociology of businesses. The model of expansion of businesses contributed towards the issuing of the first statement of our research in the context of dot.com expansion. The businesses expand, as suggested by the new analyses, following the pattern of colonization of an isle, giving a „pulsating isle” feature to its socio-economic space. The metaphor was used by biologists to

² *The Oxford Handbook of Analytical Sociology*, ed. Peter Bearman and Peter Hedström, Oxford: Oxford University Press, 2009, pp. 294-314

³ „The concept of a **moral economy** was first elaborated by English historian E.P. Thompson,^[1] (actually the term "moral economy" - моральная экономика - was first coined by the Russian economist Alexander Chayanov in 1920s, see *Oeuvres Choisies de A.V. Cajanov*, S. R. Publishers Limited Johnson Reprint Corporation Mouton & Co, 1967) and was developed further in anthropological studies of other peasant economies”. cf. http://en.wikipedia.org/wiki/Moral_economy. Pentru contribuția lui Thompson cf. Thompson, Edward P. (1991). *Customs in Common*. New York: New Press. „ The concept was widely popularized in anthropology through the book, "The Moral Economy of the Peasant: Rebellion and subsistence in Southeast Asia" by James C. Scott (1976” (http://en.wikipedia.org/wiki/Moral_economy). Pentru lucrarea lui Scott cf. Scott, James C. (1976). *The Moral Economy of the Peasant: Rebellion and subsistence in Southeast Asia*. Princeton: Princeton University Press

comprehend the two strategies of natural selection of the populations. The business expansion is similar to the colonization of an isle. The density is low at the beginning and the increasing of the organizational population within a certain niche market is not limited by the competition, being favored by the abundance of resources (the demand is limited, the production capacity is reduced, the natural and human resources are abundant etc.). Broadening the meaning of the concept of „pulsating isle” facilitates the comprehension of expansion process of business spaces, that is the increasing or decreasing the organisational populations of firms or business enterprises. Starting any kind of business is similar, in the context of eco-economy, to discovering a new niche and, thus, of a new space for an organized type of business managed within a type of incorporation process. The forces to which depends the expansion of the firms within the first phase of expansion are not density-dependant and, thus, the selection of the firms is of a special type called by the ecologists as *r-selection*.

The ecology of businesses assimilated such kind of increasing and, consequently, of selection, to an *r-type selection* of the firms on that market. As the number of these firms increases, the firms move tangentially to what Pianka (cited by Javalgi Rajshekhar, Cutler Bob, Todd Patricia⁴) called „the limit of carrying capacity” of that business environment and, consequently, the dynamic of firms unfolds within another selection pattern/field called by the ecologists as *K-selection*. Such a selection pattern depends heavily on the density (i.e. firms’ density).⁵ “The premise behind the r/K selection model is that natural selection pressures change according to population density. For example, when an island is first colonized, density of individuals is low. The initial increase in population size is not limited by competition, leaving an abundance of available resources for rapid population growth. These early phases of population growth experience *density-independent* forces of natural selection, which is called *r-selection*. As the population becomes more crowded, it approaches the island's carrying capacity, thus forcing individuals to compete more heavily for fewer available resources. Under crowded conditions, the population experiences density-dependent forces of natural selection, called *K-selection*.”⁶

That's pretty much what happened with the development of on-line firms. At the beginning, their dynamics followed a R-type selection pattern, i.e. a type of evolution that is not dependent on the density of businesses in that space. As the number of companies (dot-coms) increased in virtual

⁴ Pianka, 1974, cited by Javalgi Rajshekhar, Cutler Bob, Todd Patricia, 2004, p. 466.

⁵ “*Ecology*, Source: <http://en.wikipedia.org/wiki/Ecology>. („In the *r/K*-selection model, the first variable *r* is the intrinsic rate of natural increase in population size and the second variable *K* is the carrying capacity of a population.”)

⁶ *ibidem*

space, a new configuration was born induced by what we call *the first segmentation of on-line market*, a perspective totally neglected by the researchers in the field of economics. The companies may adopt their own strategies of selection so that the selection of type R or type K may be adopted within the same business space and under similar conditions.

The strategies of r-type selection are based on the option of avoiding the competition and, thus, creates the basis for a new option of discovering new eco-economic niches which are not crowded (this option has the disadvantage of not permitting the development of competitive behaviours, inducing a decrease of surviving rate of daughter companies, that is of new business spaces borne in the new niches). This decrease is due to the fact that a new competitive challenge re-emerges when the density increases and, consequently, the risk of removing or auto-removing re-emerges as well. On the other hand, firms opting for a K-selection strategy are powerful competitors and, consequently, such companies invest more for achieving higher *competitive advantage*. In both situations, we may refer to behaviours based on either the *option of searching new niches* or *the choice of developing the carrying capacity*, i.e. the K-type, either way the firms will explore the potential for their businesses in both spaces, i.e. virtual and real. "We make a statement for the operational definition of the concept of "*carrying capacity*" (support capacity) which, in the case of business environments, can be assessed and, therefore, measured by indexing of data such as: *number of consumers, resources within that market, infrastructure* etc. We call upon the same dimension which in eco-biology is measured in terms of the quantity of resources accessible in an environment."⁷ Calling upon the modelling population growth, originally due to Pierre-François Verhulst in 1838⁸, we are modelling the growth (dynamic) of firms, taking into account the mechanisms of alternating spacing of businesses:

$$\frac{dN}{dt} = rN \left(\frac{K-N}{K} \right)$$

where:

- t represents the time;

"N is the number of individuals measured as biomass density, r is the maximum per-capita rate of change, and K is the carrying capacity of the population."⁹

⁷ Alina I Bădescu (2014). *Competition and Surviving of the Organizations*, Bucharest: Mica Valahie, p. 133

⁸ Ecology, Source:

http://en.wikipedia.org/wiki/Logistic_function#In_ecology:_modeling_population_growth

⁹ Ecology, Source: http://en.wikipedia.org/wiki/Ecology#r.2FK-Selection_theory

The coefficient K can be evaluated and, therefore, measured by "indexing of data such as: number of consumers, resources within that market, infrastructure, etc. (An aggregate index will be calculated, based on these indicators)."¹⁰

Therefore, we should lay stress upon that, from now on, any business is no longer able to ignore the principle of *alternating spacing* (i.e. the spatial resizing of the business concurrently in the two spaces: online and offline). The phenomenon of alternating spacing, thus, involves the relationship between the positioning of a firm (in relation to the other companies within the same niche) and its spacing (its range or its value chain). Expansion of the businesses becomes comprehensive only in relation with this logic of co-extension of business spaces.

Logic of alternating spacing of the business. The meaning of co-extensive spaces

Appear, behold, new ways of aggregation of businesses that are no longer propagated in monovalent spaces (as in the case of the classical market) but also in bivalent spaces, real-virtual (online - offline), local-global, material-spiritual, concentric-diffuse (centred on the owner and independent of the owner) etc. The logic of propagating the businesses is that of the coextensive segmentation that we will refer below. *The phenomenon of market segmentation has been investigated in depth by P. Drucker who drew attention on the fact that the consumers' market is not homogeneous but rather segmented*¹¹. Moreover, *the consumers' market does not remain uniform, always the same, but go through a process of progressive segmentation to a difficult-to-quantify critical limit. As a result, just the difficulty of prediction of segmentation gives the turbulent feature of this process.* One of the most known examples of segmentation of consumers is the segmentation of social classes ("demarcated class markets"¹²). Two types of demand become visible in the market due to the affiliation of virtual consumers to the two significant classes: workers and capitalists. The producers should take into account the segmentation of the business space in order to meet real demand. Otherwise, a larger dispersion or variability of the lead times might occur. P. Drucker argues that the segmentation is a continuous and progressive process and, consequently, the present market is segmented in a multiplying way. Such market is the product of a progressive segmentation over a long period of time. The segmentation is translated into the virtual space when the virtual market is born and,

¹⁰ Alina I Bădescu, op. cit. p 133

¹¹ Peter F. Drucker, *Managing in Turbulent Times*, Collins, 1980, pp 110-115

¹² Ibidem, p 110

consequently, a process of progressive segmentation influences the on-line consumers.

Therefore, we may denote a co-extensive segmentation that is induced concomitantly in the real as well as in the virtual spaces and the two processes of segmentation do not coincide. Thus, the on-line research panel cannot be extrapolated on what is being called “physical markets” as a traditional image of the business space. It is worth mentioning the impact of marketing researches on the consumers’ behaviour (demand), an early warning of reducing the demand in the supermarkets during the global crisis. The conclusions of these studies were significantly contradicted, proving that what is happening in the virtual space is not transmitted mechanically in the real or physical space or the other way around. The evolution of the last general election in Romania, election that brought in an unexpected effect caused by the propagation of information facilitated by “Share” function on Facebook. A massive wave of information shared on the Facebook during the last 2014 Presidential election in Romania confirmed once more the mechanism and, hence, the power of bivalent spaces, i.e. real-virtual, in the field of economic and political behaviours proven during the last social movements in North Africa, being also known as the Arab Spring. We called such new bivalent business spaces as co-extensive spaces, considering that it is necessary to circumscribe the new phenomenon of the *co-extension of business spaces that is the co-evolution of a business in alternating spaces, real-virtual (offline – online)*. Such a new type of alternating spacing was induced, for instance, by the expansion of dotcoms, which bring in the alternating nature of real spaces (offline) and virtual (online) which is a new logic of business spacing.

The classic concepts of socio-economic discourse are not drawing the whole picture when explaining the expansion of businesses in the virtual spaces. The research of the dynamic of businesses uses concepts borrowed from biology and ecology. There are strategies of selection in the dynamic of businesses similar to the dynamic of populations that depend not only on the competitive advantage of the firm but, also, on the phenomena coming from the density of the “organizational population” (similar to the demographic density). The evolution of firms (i.e. the increase of the number of the firms) is not determined, in the first phase of the process, by the density as the number of this new type of businesses is low. It is the case of the newly incorporated firms and their new types of products from the virtual space. Thus, the increase of the number of firms is not dependent on the density. Subsequently, we discuss the conclusions of our researches carried out on a precedent phase, studies whose main aim was to clarify the mechanism of

alternating spacing of the businesses as well as the two strategies of selection of the firms in the co-extensive business spaces.¹³

The outlines of Amazon and eBay’s developing and surviving strategies

The individual, collective, institutional and economic evaluation in time and in the real and virtual space (i.e. of the fifth dimension) is based on two types/sets of parameters: the set of positioning parameters and the set of spacing ones (i.e. the radius of spatial covering of such evolution). We will refer, in the following section, to the evolutions of two famous companies, i.e. Amazon and eBay. Clarifying the model of the constraints of co-extensive processes within an exploratory research framework provides the reasoning behind the methodological and empirical choosing. Amazon’s strategy lays the foundation for acquiring a solid market position for this business. Many other on-line booksellers were not as successful as Amazon’s, some of them being forced to close down. Amazon and Barnes & Noble were still forceful competitors.

Amazon and eBay are two relevant examples of successful companies that depend on “complex interdependence within business ecosystems”¹⁴. The two organizations implement growth strategies according to the two models of affirmation within a given business environment: the model r and the model K. The differences proper to these two growth strategies r and K are revealed to us rather within “periods of time with higher environment turbulence when their adaptation challenges are being brought forward.”¹⁵

Business Environment	eBay	Amazon
	<i>r Strategy</i>	<i>K Strategy</i>
Dependency on technology	Higher	Higher
Business Model	Pure play Internet	Pure play Internet
Climate	More risk/ less control	Predictable/more control
Market potential	High	High
Offering model within the eco-system	Widely used	Widely used

¹³ This addition is based on different sections of my published work that has already been cited. I have chosen to present *in extenso* the studies focused on online businesses. I will resume some of my conclusions from my published work in a future chapter for clarifying the chosen topic of research that otherwise would not have been sufficiently addressed within the newly developed framework of analysis. cf. Alina I. Bădescu, „Competition and the Surviving of the Organisations”, Mica Valahie Publishing House, 2014.

¹⁴ Javalgi Rajshekhkar, Cutler Bob, Todd Patricia, *op. cit.*, p. 467.

¹⁵ “The differences of their (i.e. Amazon and eBay – A/N) growth strategies in terms of r and K become evident when examining their individual challenges when adjusting in times of turbulence in the environment.” *Ibidem*, p. 467.

Inventory	Minimum	High/ widely used
Transaction flow within the eco-system	Buyer/ seller	Amazon/buyer
Complexity of customers' relationships	Higher	Lower
Core Business type	Services	Retailer
Client's integration within the eco-system	Stronger interaction between buyer and seller	Stronger interaction with the buyer
Information sharing within the ecosystem	Buyer/seller/eBay	Buyer and Amazon
International expansion	Less capital required	More capital required
Buyer-seller interaction	Strong	Moderate

Source: Javalgi Rajshekhar, Cutler Bob, Todd Patricia, 2004, p. 468

Beyond the similarities between the two companies regarding the „dependency on technology”, „market potential” on the globalized market and the „opportunities for growth/development”, some significant differences still exist. The difference between the two companies is being brought forward when referring to the interaction between buyer and seller. „eBay company offers the structure and the interface allowing buyers and seller to get in contact is of retailing. On the other side, Amazon implements a retailing strategy, selling products directly to the client.”¹⁶ It has become evident that we are dealing with a segmentation of the market induced by what we may call the style or the consumers' behaviour at the intersection of the two spaces: offline and online (real-virtual), leading to the coextensive spacing proper to the hybrid organisations (real-offline and virtual-online or the co-extension of the businesses in real and virtual spaces).

Amazon.com

We have already noticed that Amazon is an example of organization choosing to implement a r-strategy that was, later on, „transformed in a K-strategy”. „The adaptation to the Internet environment” pathed the way to Amazon's competitive advantage. Amazon started its operations in 1995 (Ajello, 2004) and proved its success in a competitive environment influenced by a rapid expansion of dot-com companies, phenomenon that impacted Amazon's business in the way of searching for „modalities of surviving and becoming profitable. In 2001 – 2002 the dot-com companies have become under financial pressures as well as significant competitive pressures and, consequently, many of them were forced to shut down... For Amazon, the sign of bright outlook and the first year of profitable operation was the year 2003, with sales of \$ 5.3 billion”¹⁷. Amazon was one of the first

¹⁶ Javalgi Rajshekhar, Cutler Bob, Todd Patricia, *op. cit.*, p. 468.

¹⁷ Ajello, 2004

businesses focusing initially, and “exclusively on online book retailing”, promoting a “community with books’ buyers, involving them in writing reviews and recommendations. A business model was built, then developed and, similar to other companies, Amazon started to expand in other business areas.” (Chakrabarti & Scholnick, 2002). This company should be considered as benchmark for anyone wishing to investigate the model of this business whose success is due to its online presence. We may refer to the success of such company based on the strategy of growth through progressive diversification and its ability to achieve competitive advantage and, hence, gain market share as well as its capability of consolidating its position. Amazon expanded its business presence towards a variety of offers, including partnerships with other retail outlets (e.g. Target and Toys-R-Us). Such company increased its market share through expanding its current offerings (e.g. films, health products, electronics etc.) in order to multiply choices available to its customers. Amazon has, also, added more distribution channels to its members.” (Mahajan et. Al., 2002) Amazon is based on national and international online businesses. „The international business generates more than 30% from sales and is expected to increase.” (Stone, 2003) The strategy of growth, providing evidence for a multidimensional expansion: online (in virtual space), internationally and through a progressive diversification of the offerings. „The increase and the employment of resources signalling a K-type strategy. (...) Integrating innovative products offered by small-sized new entrants was, actually, one of the strategies implemented by Amazon for growing the business. (Wolf, 2003) It is a tactic proper to an evolution of K-type strategy.”¹⁸

Phenomenon and periods of decline are evidently recorded in the case of companies carrying out their activities in the virtual spaces. There are many „turbulences of environment” that might emerge inducing a loss of competitive advantage that was previously achieved until the very moment of such a significant turn. Such companies are in quest of new strategies of development in order to prevent such „turbulences” and, therefore, overcome periods of decline, creating new opportunities for development in the future. One of the most used strategies is the one denoted by *the alternating spacing* of the business that is the bi-spatial co-extension of the businesses.

In conclusion, the secret of success for companies like Amazon rests on its capability to exploit in real terms the progressive segmentation of consumers. The use of virtual spaces of its retail businesses in a way that would get the most out of its potential became a critical success factor for Amazon.

¹⁸ Javalgi Rajshekhar, Cutler Bob, Todd Patricia, *op. cit.*, p. 467.

We called *alternating spacing* as being the logic of business propagation in opposite and complementary spaces. Such propagations of the businesses cannot be explained anymore based on the aristotelic logic of excluded middle/tertium (*tertium non datur*) but, rather, relying on the logic of included middle/tertium. We cannot assert anymore that something is either white or black but, rather, white and black in the same time. It is the logic of the new model of businesses ran in the same time in the real as well as in the virtual spaces. This model dechippers the logic of new businesses that are simultaneously spatial and aspatial, temporal and atemporal, local and nonlocal etc. The social capital is the most relevant example for evidencing of an economic phenomenon within the logic of included tertium. The social capital is concomitantly a phenomenon of *positioning and spacing*, that is the expression of „positioning in the social space” and, in the same time, its quantified manifestation. The social capital (and, hence, its power) of one country like in the case of Germany, is incomprehensible if ignoring the positioning of this country and, in the same time, if ignoring the European space, through which is composing and recomposing the social capital of Germany.

The extended economic discourse includes applications in fields seemingly distant from the classic one of the economic discourse. One of the most interesting applications is the one that has arisen from the intersection of organisational ecology and eco-economy, allowing us to advance the combined model of organisational ecoeconomy. This model combines concepts of organizational ecology that have been already addressed in the book „Competition and organisational survival”¹⁹ with notions of ecoeconomy leading to an evaluation strategy of large civilisational spaces as, for instance, the European space. Therefore, we are on the verge of a new approach to the theories of capitals that fit within what might be called *eco-economy of capitals*. A dedicated study to this issue would allow a reconstruction of socio-economic discourse at the intersection of several occurred disciplinary fields as well at the crossroad between sociology and economy.²⁰

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¹⁹ Ibidem

²⁰ Dedicated to the study of this reconstruction, see Alina I. Badescu, *Social capital in light of the theory of the business spaces' co-extension. Contributions to the re-construction of socio-economic discourse*, MS elaborated within project "Romanian Culture and European Cultural Models: Research, Synchronicity, Durability", ID 136077

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