# Paradox management through business model design

Disseration draft

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*2018-09-05*

# Contents

# Notes on draft

- Marked in red are those paragraphs that need corrections, more work, are not finished, etc. so I can remember.
- The introduction (to introduction) I wrote last summer. I included it in case it resonates, but can also be rewritten completely. I included the subsections I estimate to decribe in it and the questions they should answer.

- Chapter 3 (aka Paper 1) is finished.
- Chapter 4 needs an update on analysis, since the last version had mixed data from interviews, but I will use survey data.
- Chapter 5 needs an update on analysis including validity tests and an extra opiniono n the correctness of PCA results and their calibration.

- Chapter 2 (aka Paper 0) has a half that is written, but is not included in this draft yet not to confuse anyone. I only added abstract.

## To-do big

0. One clean data set from the last survey download - anonymous and publishable on dataverse

1. Redo the analysis of Paper 2 ("Killing two birds") & write up results

2. Rebustness and validity checks for Paper 3 (the last one), integrate suggestions from EGOS
3. Paper 0 ("Thriving off of tensions") - write a shorter version than initially planned

4. Introduction
5. Conclusions

6. Abstract Paper 3

## To-do small

1. Paper 2 and 3 make cross-linkable references

2. Check all the tables and figures so they follow a consecutive order, and rename filenames accordingly.
3. Check the texts so they are not repetitive, for paper 3 I did quite some coying from earlier versions of other papers (is using the same texts across papers allowed?)

4. Position of appendices - in each chapter, or in a separate chapter for all papers together?

5. Make the rendering to pdf work properly with the tables

## For later

1. Acknowledgements
2. Report for industry - which are the interesting insights?

3. Automized individual reports for participants

# Chapter 1

# Introduction

This thesis explores the decisions top-managers make about their firms' business models in the presence of strategic dualities of a particular kind - paradoxes. *Strategic paradoxes* denote competing, conflicting, yet interrelated strategic goals, which cause tensions as a result of seemingly irreconcilable requirements and persist over time (Smith and Lewis, 2011; Lewis and Smith, 2014; Jarzabkowski et al., 2013). While I study the conflict between creativity and commercialization in creative service firms[1], the work presented in this thesis is driven by a broader question, namely - how can firms use business model design to make conflicting, yet interdependent startegies work? I strongly believe this question is relevant beyond the studied field, as incorporating beyond-profit considerations, mostly social and environmental, in enteprise design is (hopefully) on its way of becoming the norm.

To explore the process and content of business model design for startegic dualities, I use paradox theory as a lens, and creative industries as an examplary *paradoxical setting*. This topic is investigated through one conceptual and three empirical studies, each using different methods. In the consequent sections I explain the main theoretical and methodic assumptions this thesis relies on. I address three questions in particular - 1) Why paradoxes? 2) Why business models? 3) How should we conceptualize organizations in order to study the relationship between the two?

## 1.1 Encountering and studying paradoxes: Why?

> How wonderful that we have met with a paradox. Now we have some hope of making progress. (Niels Bohr, 1885 - 1962)

In line with Fairhurst et al. (2016), paradox can be defined 'as persistent contradiction between interdependent elements'(p.10). More intro on paradoxes of our time…..

The introductory quote was part of Niels Bohr's response to Einstein's famous thought experiment 'Can Quantum-Mechanical Description of Physical reality Be Considered Complete?' (Einstein et al., 1935). In this article, Einstein put forward what he considered a fundamental *flaw* in the quantum mechanics. As he argued, the idea that the measurement performed on one particle from an interacting pair would affect the state of the other particle in the same way, no matter what the distance between them, was untenable, as it would have meant that information is transmitted faster than the speed of light, thereby defying the Theory of Relativity. In short - the main premise of the new-born quantum mechanics field seemed counterintuitive, and hence could not be true. However, this is, in fact, now known as the *EPR paradox*, and is one of the best-known examples illustrating the concept of *quantum entanglement*. But what does quantum mechanics have in common with the study of organizational paradoxes? Besides being a beautiful

[1] Design consultancies, architecture firms, advertisement companies, firms providing audiovisual services, digital agencies and similar firms.

quote about the opportunities paradoxical encounters can offer, the presented context in which Bohr wrote these words perfectly highlights three cornerstones of this thesis:

First, paradoxes are a prevalent part of human experience, whether it would be the development of theoretical physics, study of organizational behavior and decision-making, or our daily lives. As in the case of the EPR Paradox, we cannot dismiss their existence only because they go against our perceived ideas about the reality. The famous management scholar Charles Handy referred to the contemporary times as the *Age of Paradox* (Handy, 1995) already more than 20 years ago. According to the author, 'paradox has almost become a cliche of our times. The word crops up again and again as people look for a way to describe the dilemmas facing the governments, businesses, and, increasingly, individuals.' (p.xi). Consequently, while most of business studies, particularly in the domain of strategy, rely on the established profit-maximization paradigm, it does not mean that it is the right paradigm to describe all the challenges facing contemporary firms.

Second, the discovery of a paradox, and above all - the acceptance of it, as Bohr rightly noted, paved the way of many new scientific discoveries that nowadays constitute a big part of physics as a scientific discipline. In a similar vein, the rich and growing body of research relying on the paradox theory (Lewis and Smith, 2014) and related theories for explaining many organizational phenomena has proved that the paradox perspective can help to look at many troublesome questions from a fresh point of view. Scholars have successfully shown how paradox theory can assist in re-framing our understanding of the relationship between phenomena like science and commerce (Bednarek et al., 2017), exploration and exploitation (Papachroni et al., 2015), control and collaboartion in the context of governance (Sundaramurthy and Lewis, 2003), and many others. Studies so far have extensively dealt with the very nature and implications of paradoxical tensions (Poole and Van de Ven, 1989; Smith and Lewis, 2011). Building on that, authors have made conclusions about the leadership styles (Lewis and Smith, 2014) and structures (Ebbers and Wijnberg, 2017) needed in order to manage paradoxes, mindsets that help to accommodate paradoxical thinking (Miron-Spektor et al., 2017), rethorical devices (Bednarek et al., 2017), identity work (Gotsi et al., 2010), innovation management (Andriopoulos and Lewis, 2009) and more. Yet surprisingly, the topic of this thesis - strategic decision-making about business models - has so far received very little conceptual and almost no empirical attention. This is hence the gap we try to fill.

Third, the main object of dispute between Bohr and Einstein - quantum entanglement - has surprisingly a lot in common with the main object of this research - strategic paradoxes. '*Quantum entanglement* is a quantum mechanical phenomenon in which the quantum states of two or more objects have to be described with reference to each other, even though the individual objects may be spatially separated.' *Strategic paradoxes*, in turn, denote inherently contradictory, yet inseparable and interdependant objectives that an organization is pursuing (Bednarek et al., 2017). In both cases we are dealing with the relationship between two (or more) interconnected elements, their influence over each other, and the way we interpret the nature and outcomes of this interaction. Although very different from each other, both theories share the idea that it is impossible and useless to observe or perform a measurement on a single part of an interrelated whole. When it comes to organizational life, this invites us to dismiss the separatist approaches, attempt to observe the integrity of processes, and embrace the paradoxical nature of strategic decision-making.

## 1.2 Framing strategic conflicts

Contrasting trade-off and both/and perspectives. Start with examples.

Learn and perform, plan and do, short-term and long-term, explore and exploit. These are just few of the paradoxed that have been explored by scholars and that are inherent to the life of every organization.

How have we studied them so far? –> Trade-off. What are the implications? What does paradox perspective offer? What changes if we frame them differently?

The first paper of this thesis tackles exactly this topic.

## 1.3 Pursuing conflicting goals

What does the strategic management literature tell us about pursuing conflicting strategies? -frustrating etc.

In the end, organizations need to come up with coping mechanisms, balancing acts, as "usual" decision-making strategies do not work.

## 1.4 Approaches to coping with the paradox

Integration and separation at different levels.

## 1.5 Business modelling for complexity

Why study business models? And how can we make them fit complex strategic intents?

## 1.6 Heterogeneity of organizationl commitments and performance implications

Do differences in the importance that are attached to each of the dimensions lead to business model heterogeneity? And what are the performance implications?

## 1.7 Purpose and overview of the thesis

| Chapter | Research Question | Research Approach | Data | Contributions |
|---|---|---|---|---|
| 1 Thriving off of Tensions | How can paradox perspective enrich creative industries research? | Conceptual with empirical support | - | The identification of an alternative conceptual framework for framing and studying tensions in the creative industries context; |
| 2 Crafting Business Models for Paradoxical Goals | How do firms use business model design in order to attend strategic paradoxes? | Qualitative, inductive, cross-case analysis | In-depth interviews (n=16), expert panels, field notes | The identification of a menu of business model related decisions that can be used to address paradoxical strategies simultaneously; Paradox management at the business model level' |

| Chapter | Research Question | Research Approach | Data | Contributions |
|---|---|---|---|---|
| 3 Killing Two Birds with One Business Model | How do integration and separation decisions within different business model elements lead to (mis-) balanced performance in conflicting domains? | Combined qualitative and quantitative, configurational analysis (using Qualitative Comparative Analysis) | In-depth interviews (n=16), survey data (n=33), expert surveys (n=4) | A configurational perspective to paradox management; Empirical evidence for inter-relatedness of business model elements; |
| 4 Organizational commitments to conflicting values, business models and performance | How do organizational values influence business model heterogeneity, and what are the joint performance implications? | Quantitative, deductive, factor analyses, QCA Survey data | (n=x) | Explaining business model heterogeneity as a result of different value profiles, and linking them to performance outcomes; |

## 1.8 A note on methodology: Studying organizations as configurations

What is the configurationl perspective and why is it the most relevant for this thesis?

# Chapter 2

# THRIVING OFF OF TENSIONS:

### A PARADOX PERSPECTIVE ON CREATIVE ENTREPRENEURSHIP

**Abstract.** This conceptual paper introduces paradox theory as a lense for creative industries research. We first trace the theoretical developments over the last century explaining the origings of the seemingly irreconcilable conflict between creativity and commerce. We then argue that much of the assumptions are untenable in the contemporary creative industries context, as the field cannot be seen as the hereditary of the same features as arts worlds. We introduce the paradox lens as an alternative theoretical framework and discusses the implications of such an approach to the broader creative industries research in management, cultural sociology, human geography, and related disciplines that have focused extensively on studying creative industries.

**Keywords:** Creative industries; Paradox theory;

# Chapter 3

# *CRAFTING* BUSINESS MODELS FOR PARADOXICAL GOALS:

### LESSONS FROM CREATIVE SERVICE FIRMS

**Abstract.** Senior managers attempt to design the best possible business models that would enable their firms to reach their targets. Yet, as the entrepreneurial complexity increases, leaders have to consider conflicting, even paradoxical strategic goals in their decision-making, if they want to succeed. Examples include profit and social value, stakeholder and company interests, exploration and exploitation, sustainability and economic returns. How can managers create such business models able to accommodate these conflicting needs? We study creative firms who face the double-success criterion - the imperative to perform well both creatively and commercially - to show how organizations use business model design as means of simultaneously achieving conflicting goals. We leverage paradox literature to map the diverse ways in which firms use integration and differentiation strategies across different business model domains: types of services provided, choice of clients, networking and resourcing practices, revenue models and new venture creation. Based on our qualitative case analysis, we introduce four integrative and three differentiating strategies that firms can apply in their decision-making about business model design when exposed to conflicting strategic demands or success criteria. Our findings contribute to the ongoing scholarly debate about paradox management by suggesting new ways of working through the paradox. Our results equally enrich the business model literature by showing how to craft business models capable of catering for double agendas.

**Keywords:** business models, paradox management, creative industries, service firms.

## 3.1 Introduction

> "Two souls, alas, are housed within my breast, And each will wrestle for the mastery there." (Goethe. Faust, Part One: "Outside the city gate.")

In the past two decades, business models have attracted considerable scholarly and entrepreneurial attention, seen as a new source of competitive advantage and an additional innovation domain (Massa et al., 2017; Ricart and Casadesus-Masanell, 2011). A business model is the design by which a firm operationalizes its goals into specific decisions that create value and establish mechanisms to capture this value (Massa et al., 2017; Morris et al., 2005; Smith et al., 2010). While designing a commercially successful business model is not an easy task (Teece, 2010), it is arguably even more difficult for organizations that aim to create and capture

more than economic value, such as social enterprises, creative firms, hybrid organizations, state companies or family firms. Such firms face complex demands and pluralistic institutional logics, which require them to pursue conflicting, even paradoxical, goals at the same time (Ocasio and Radoynovska, 2016; Yunus et al., 2010).

In fact, paradoxical - conflicting, yet interrelated and persistent - goals are not restricted to particularly salient settings as the ones mentioned alone (Jarzabkowski and Fenton, 2006; Jarzabkowski et al., 2013). Almost all firms have to simultaneously think about their long- and short-term interests (Slawinski and Bansal, 2015), learn and perform (Van Der Vegt and Bunderson, 2005), explore and exploit (Gupta et al., 2006), or increase profits and be socially responsible (Smith et al., 2012). Paradoxical goals are hence an inevitable reality of most contemporary enterprises (Jarzabkowski and Fenton, 2006). Such goals compete for organizational resources and attention (Smith, 2014), whereby operationalizing them for successful value creation and capture requires complex business models (Smith et al., 2010). Yet, despite the prevalence of contradictory demands, there is very little research on how firms deal with conflicting goals in their business modelling efforts.

Thus far, an explicit link between paradoxical demands and business models has been made only conceptually (Smith et al., 2010; Ocasio and Radoynovska, 2016). Empirically, some separate practices have been identified in the social entrepreneurship literature, as well as discursively in the paradox literature. For instance, Yunus et al. (2010) have pinpointed the need of finding partners for complementary resources, selecting shareholders with similar dual mindsets, or defining the expected social profit and how it is gained. Paradox scholars have repeatedly shown that such business model related choices as venture separation (Burgers et al., 2009), client segmentation (Andriopoulos and Lewis, 2010), and value chain integration (DeFillippi, 2009) can be used as means to cope with conflicting goals. However, this area lacks more systematic empirical insights and theory building.

This paper addresses this gap to explore how firms use business model design as means to manage conflicting goals simultaneously. We adopt a paradox lens to the plurality of and contradictions in firm goals. Our conceptual model builds on the *dynamic equilibrium model of organizing* introduced by Smith and Lewis (2011) and Smith (2014). According to this model, strategic paradoxes create tensions, which have to be accepted and 'worked through'. Paradoxical resolution requires "confronting paradoxical tensions via iterating responses of splitting and integration"(Smith and Lewis, 2011, p. 389). In paradox theory, these integration and differentiation (or separation) strategies are thus seen as the generic responses for coping with conflicting goals; and their application has been discovered and discussed at many levels and domains of management and organization but not at the business model level (for recent reviews see Schad et al. (2016) and Fairhurst et al. (2016)). We leverage this model to study how these strategies are applied to business model design as means of managing paradoxical goals.

For our investigation, we carried out an inductive cross-case analysis based on interview data with founders and/or managers of Dutch creative service firms (e.g., design consultancies, advertisement agencies, digital agencies). We chose the creative industries setting as a typical paradoxical setting. Creative firms face the *double success-criterion* (Jacobs, 2012; 2013) - their capacity to generate profits and sustain business depends on the willingness and ability of the employees to constantly be creative and generate novel solutions; and vice versa - the continuous engagement in creative and challenging work depends on the financial sustainability and efficiency of the enterprise (Jones et al., 2015; Lampel et al., 2000). Our analysis reveals how senior managers work through the paradoxical tensions associated with simultaneously pursuing creative and commercial goals using four kinds of integration and three kinds of differentiation tactics across different aspects of their business models. Based on the results, we 1) construct a more complete picture of the menu of business modelling and decision-making alternatives (Chesbrough and Rosenbloom, 2002) available for firms in pluralistic settings; and 2) discuss the ways in which firms can implement combinations of both types of paradoxical business modelling tactics in their decision-making to minimize the tensions arising from pursuing conflicting goals.

The remainder of the article is structured as follows: we first review the literature on strategic paradoxes. We then discuss business model design and how insights from paradox theory can be used to frame this process as an organizational response to conflicting goals. The subsequent section outlines our research

design and methods. Finally, we present our results and discuss them in the context of prior studies on paradox management and business models.

## 3.2 Literature review

### 3.2.1 Coping with strategic paradoxes

To understand the workings of business model design as a response to conflicting goals, we should be able to rely on the existing knowledge about organizational responses to conflicts. While many literature streams have dealt with the topic, thus far, paradox theory (Lewis and Smith, 2014) provides the most elaborate insights when it comes to theorizing about the decision-making responses. Paradoxes are defined as "contradictory, yet interrelated elements of organization that seem logical in isolation, but inconsistent and oppositional in conjunction and persist over time" (Jarzabkowski et al., 2013, p. 245). As the definition suggests, there are three key features of a paradox: contradiction, interdependence and pertinence. Like Yin and Yang, paradoxes consist of two mutually reinforcing, yet opposing poles or elements that interact in a conflicting whole, or "eternal mutuality" (Schad et al., 2016, p. 6).

According to paradox scholars, many organizational phenomena can be framed as paradoxical, for instance, tasks, demands, identities, cultures, and also goals (Smith, 2014). There are various types of paradoxes, each having different sources. The conflict of the creative service setting we are studying, namely, the imperative to be creatively and commercially successful at the same time can be seen as a strategic paradox, or what can be also described as a *paradox of performing* (Smith and Lewis, 2011). Such paradoxes come about as a result of multitude stakeholders and competing goals, and surface tensions as the individuals struggle to carry out conflicting tasks and roles simultaneously (Jarzabkowski et al., 2013; Luscher and Lewis, 2008). Strategic paradoxes are particularly dominant and influential for they penetrate the whole organization and jeopardize its ability to sustain itself in the long-run (Jarzabkowski and Fenton, 2006; Smith, 2014). The success of firms that face strategic paradoxes will thus depend on their ability to respond by accepting the paradoxes and learning how to cope with them. In line with the theory, the traditional trade-off approaches that imply choosing one or the other pole are not suitable for coping with paradoxes, as they cannot be resolved. Managers should instead adopt a "both/and" mindset, recognizing the duality and the necessity and interrelatedness of both (or all) poles (Lewis and Smith, 2014). The paradox literature also offers specific management strategies for grappling with such challenges.

Smith and Lewis (2011) have synthesized prior research and theoretical insights into a *dynamic equilibrium model of organizing*, which has been further applied to the particular case of strategic paradoxes (Smith, 2014). According to their theoretical model, some organizational strategies require simultaneously targeting juxtaposed, yet interdependent goals. The paradoxical nature of such strategies implies that a choice between A and B cannot be made, as both are regarded as important, yet the fundamentally opposite decisions necessary to act upon each of them are conflicting and cause tensions. Due to the persistence of the conflict between the two poles, the process of paradox management can be seen as a continuous circle of organizing and decision-making, where decisions on how to organize for and manage the paradoxes lead to either virtuous or vicious patterns. If the managers choose to ignore one of the two poles, this eventually leads to vicious circles, where the ignored pole resurfaces unresolved tensions. If the dual nature of the strategic context is accepted, virtuous cycles spur as managers work through the tensions, by implementing a decision-making process that accommodates both A and B (Fairhurst et al., 2016). As specified by the model, all decisions in management and organization can either address the paradoxical goals separately by applying differentiation approaches, or simultaneously through integration approaches (Smith and Lewis, 2011; Smith, 2014).

*Differentiation approaches* to paradox management can entail spatial or temporal separation. Spatial separation prescribes dealing with tensions through segmentation and/or source splitting, for instance, establishing separate units, teams, ventures, leadership structures, processes, etc. Temporal separation or vacillating focuses on segmentation over time instead of splitting structures and processes "in space"(Poole and Van de Ven, 1989; Fairhurst et al., 2016).

*Integration approaches* imply searching for compromise in terms of solutions that embrace both poles (Fairhurst et al., 2016), for example, hiring all-around employees that adhere to both visions (O'Reilly and Tushman, 2013), or that have multi-sided skills (Gotsi et al., 2010), creating an organizational meta-identity that unites both poles (DeFillippi, 2015), or building common organizational value system through communication of the dual strategic goals (Kolsteeg, 2014).

According to Smith (2014), each approach is needed for successful paradox management. Differentiating approaches stress the unique characteristics of each pole, while integration approaches emphasize synergies and connections. If companies manage to successfully implement "consistently inconsistent decision-making patterns" (Smith, 2014), shifting between integrating and differentiating in a balanced way, this can lead to sustainable firm performance in the long-run, using the tensions as a source of creativity and driving force to eventually even achieve continuous strategic innovation (Tse, 2013).

As shown in the examples, both approaches of paradoxical resolution have been studied with respect to many domains of strategic decision-making and beyond. While scholars have further argued that firms facing strategic paradoxes require complex business models (Smith et al., 2010), we know very little about what that actually entails.

### 3.2.2 Business model design

Business models can be broadly defined as descriptions of how firms create, deliver and capture value (Osterwalder and Pigneur, 2010; Teece, 2010). The business model perspective has emerged as an alternative way of conceptualizing and describing how firms do business (Magretta, 2002) when compared to the more traditional resourced-based or strategic positioning views. As a perspective, it adds the previously absent demand-side considerations to explain firm heterogeneity and performance differentials (Massa et al., 2017), and promotes "voluntary choices over environmental conditions" (Demil et al., 2015, p.2).

In order to understand what business models are, scholars often first explain what business models are not. As Morris et al. (2005) summarize, "[the business model] captures key components of a business plan, but the plan deals with a number of start-up and operational issues that transcend the model. It is not a strategy but includes a number of strategy elements. Similarly, it is not an activity set, although activity sets support each element of a model." (p.727) It should also not be confused with revenue models, as they form only one of the business model decision domains. A key characteristic of the concept is that it captures the essential strategic choices that explain how firms do business.

In a similar vein, this article adopts the definition of Smith et al. (2010) where "[a business model is] the design by which an organization converts a given set of strategic choices - about markets, customers, value propositions - into value, and uses a particular organizational architecture - of people, competencies, processes, culture and measurement systems - in order to create and capture this value" (p.450). According to this definition, the business model manifests as a set of choices that all together shape the firm's business model (Morris et al., 2005). In line with the definition, most literature agrees on distinguishing four separate, yet interrelated choice domains of business model design that facilitate the analysis:

- *Value proposition* describes the basic features of the offering, the type of value it is generating and the perceived basis of differentiation from competitors.

- *Value delivery* describes the demand side or the customer infrastructure that the firm builds - its target markets and customers to whom the value is delivered; how they are acquired and reached.

- *Value creation* depicts the supply side of the firm, namely, what internal and external resources, activities and structures are needed to generate the value proposition.

- *Value capture* describes the financial aspects of the firm's value mechanisms (Morris et al., 2005; Osterwalder et al., 2005; Teece, 2010).

In short, business models help managers to answer four major strategic questions - what do we offer; to whom; how do we make sure we have all we need to create our offering; and how are we paid? By making decisions in each of these four domains managers continuously design their firms' business models.

Management literature has repeatedly emphasized that designing a good business model is essential to firm performance and can give substantial advantages over competitors (Zott and Amit, 2007). As explained by Casadesus-Masanell and Ricart (2010), "different [business model] designs have different specific logics of operation and create different value for their stakeholders".While most of business models are designed to convert the created value into profits (and hence this has also been the main research focus), we can also extend this notion to the design of more complex business models that strive to reach multiple objectives and that "manage the inherent tensions involved and enable contradictory agendas to thrive at the same time" (Smith et al., 2010, p. 449).

### 3.2.3 A paradox perspective to business model design: Conceptual framework

Ocasio and Radoynovska (2016) suggest that while firms might face similar contradictory demands, they can interpret them differently. This means that firms commit to the different logics in various ways and with different decisions, thereby creating business model heterogeneity. Business model design can thus also be viewed as a managerial response to pluralism and conflicting requirements (Laasch, 2017), as opposed to the common conceptualization that sees business models as descriptions of how firms earn money through their value propositions (Magretta, 2002).

Empirical insights linking strategic paradoxes and business model design are quite scattered and often implicit. The business model literature mostly deals with strategic dualities in terms of multi-business-model firms. These studies treat business models as ready-made competitive strategies, where the question is if multiple goals are better reached with a single integrated business model or with separate ones (Benson-Rea et al., 2013; Markides and Charitou, 2004). Yet, according to Massa et al. (2017), it remains unanswered how business models and their components differ when modelling businesses beyond profit-maximization?

Some of the strategic choices that we would consider as pertinent to the business model concept, such as the selection of value activities offered by the firm (DeFillippi, 2009), networked resource acquisition (Yunus et al., 2010), or client selection (Andriopoulos and Lewis, 2010), have already been studied relying on the paradox lens. These authors have demonstrated that firms use the earlier outlined integration and differentiation strategies as means of coping with strategic paradoxes, proving that the dynamic equilibrium model of organizing (Smith and Lewis, 2011) can be succesfully applied to understanding strategic decision-making. We thus leverage the model and propose that the process of designing business models for conflicting goals can be equally seen as a process of paradox resolution (Tse, 2013). Figure 1 3.1 illustrates our adapted analytical model.

The general question that stems from the earlier discussion is how to accommodate conflicting goals within a business model? Based on the insights from paradox management, we can expect that the integration and differentiation strategies would also be applicable when making decisions about the four components of business models - value proposition, delivery, creation, and capture. Prior literature has treated business models as a single choice, and thus discussed the contexts under which integrating two business models with different aims in a single venture, or separating them in two ventures would be more beneficial (Markides and Charitou, 2004). In this study, we treat new venture creation as the last one of the business modelling domains, alongside the four most important within-business-model decision domains - the choice and articulation of the value proposition, the client and market selection, the resource and network organization, and revenue models. In our particular case, we investigate how business model related decisions can help to achieve the paradoxical goals of creative and business success in the creative service setting. Which business model design choices allow coping with the two goals in an integrated manner and which differentiate between the two goals? Applying this model, we use these individual business model level decisions made by managers (grey box in the graph) as objects of observation to inductively derive integrative and differentiating tactics applicable to business model design in general.


Figure 3.1: Conceptual model.

## 3.3 Research approach and methods

Since little specific empirical research was available to inform our research, a qualitative, exploratory, cross-case research design was deemed as the most appropriate (Yin, 2013). Throughout the research process we followed the suggestion on the process of theory building from case-study research as described by Eisenhardt (1989), Gioia et al. (2013), and Cornelissen (2017).

### 3.3.1 Research setting: Creativity and commerce as a paradox

For the purpose of this study we chose a specific paradox to study, namely, the tension between creativity and money in the creative industries. Furthermore, we also chose a specific sub-sector of the creative industries to focus our investigation on - creative services (e.g., design consultancies, architect offices, advertisement firms, digital agencies, or audiovisual service providers). These firms combine characteristics of several ideal-types of firms discussed in the literature - creative firms (Caves, 2000, 2003), professional service firms (PSFs) (Von Nordenflycht, 2010), and knowledge intensive business services (KIBS) (Hertog, 2000; Miles, 2012). This choice was made in order to keep both the aspirations driving firm behavior, as well as business model options comparable, yet diverse enough for the results to be interesting beyond the setting. The human capital intensity of all three types of firms makes the paradoxical tensions similar, while the service component ensures the comparability of organizational designs and decision-making processes. Table 1 illustrates the most important business model choice domains in creative, and knowledge-intensive service firms, in general. We elaborate on these choices in Appendix A.

Table 3.1: (#tab: buschoices) Main business model choices for creative firms.

| Value Proposition | Value Delivery | Value Creation | Value Capture |
|---|---|---|---|
| Knowledge offering: | Client and market selection | Resourcing choices | Revenue models |
| Value chain activities | Customer relationships | Network organization | New venture creation |
| Service architecture | | 'Production' process organization | |
| Offering type (service and / or product) | | | |

Creative service firms mostly follow a very traditional professional service firm business model - they offer a highly customized (innovation) services that are based on a certain type of knowledge that is unavailable to the client (Von Nordenflycht, 2010). TThey are mainly paid on hourly basis, and according to the seniority. Human talent is the main resource of the firms, so the leaders have to make sure that the employees are satisfied, challenged enough, and are fulfilling their creative potential, if they want to retain the talent within their organization (Teece, 2003; Caves, 2003). Such entrepreneurs are also often not primarily driven by profits, but instead aim to realize aspirations about professional prospects, certain lifestyles, creative self-expression, or meaningful work (Chaston, 2008). These firms cannot benefit from economies of scale through traditional means, neither through digitization, as the knowledge intensity requires a close contact to clients (Miles, 2005). While the firms could decrease customization and hence increase returns to labor hours, that would also change the nature of work and would hence not be in line with the ambitions of employees. This also makes it difficult to exercise more control over the employees, as flexible organizational culture is needed to foster creativity (Andriopoulos, 2003). However, the tensions between creativity- and efficiency-oriented behavior are not only internal. The services have by nature opaque quality - while being their primary source of value, without expert knowledge, the quality is difficult to estimate. Such firms are hence often underpaid, yet need to maintain very high levels of quality, when compared to similar settings, where quality is easier to judge or more professionalization exists (Von Nordenflycht, 2010; Silvestro et al.,

1992; Maister, 1982).

Ocasio and Radoynovska (2016) explain that the extent to which firms will be able to cope with such conflicting demands at the business model level will first and foremost depend on whether they frame and translate them as a trade-off or a paradox. While this is not necessarily the case in all other KIBS, creative industries firms (Caves, 2000) have a long-lasting tradition of framing the internal and external conflicts between creative and commercial goals as a trade-off, borrowing it from the arts' world.
At the industry level, theories divide markets into mass (commercial) and niche (artistic) and argue that different kinds of creative production take place in each (Bourdieu and Johnson, 1993). Consequently, similarly to the work developed on the generic strategies of competitive advantage (Porter, 1985), wwhere firms are thought to compete based on either quality or cost efficiency, it is suggested that creative firms should choose between a commercial or creative-artistic strategy, depending on the markets the want to target (Canavan et al., 2013). At the decision-making level, creative firms have been found to consistently prioritize professional standards and creative aspirations over monetary value (Jacobs, 2012; Bos-de Vos et al., 2016). According to our conceptual model, such trade-off thinking in paradoxical settings means denial and can lead to vicious circles of tensions penetrating the organization and jeopardize its capacity to perform in the long run. Unsurprisingly, research and statistics show that creative firms have low labor productivity, problems with growth, higher than average start-up failure rates, and general problems with financial viability (Jacobs, 2013).Nevertheless, similarly to the developments in paradox theory, also creative industries scholars increasingly agree that a clear distinction between creative and commercial activities in the sector is untenable (Hesmondhalgh, 2006; O'connor, 2010). This is especially the case in for-profit creative industries, including creative service firms, where the success depends on being good at both creation and commercialization simultaneously (Jacobs, 2012). It would therefore more realistic to suggest that, while pursuing creative and commercial ends simultaneously creates certain tensions, this co-existence of conflicting, yet interrelated goals can be better framed as an organizational feature that cannot be changed and has to be accepted and managed (DeFillippi, 2015; Lampel et al., 2000; Townley et al., 2009), and is hence paradoxical.

### 3.3.2 Case selection, data collection and analysis

We studied a total of sixteen cases, and their selection for our study was theoretical. The firms in our sample had to be at least 5 years old and with a minimum of 5 full time employees. The age ensured that firms have survived the startup phase and had been able to manage both creative and business goals with relative success. The size meant they are big enough to have developed also organizational values and goals, not only individual ones. In addition, we also asked industry experts to point towards firms with diverse commitments to both logics.

The data was collected primarily in semi-structured interviews. When conceived as a set of decision variables, business models emerge as a result of the decision-making process of top-management. Methodologically, it implied that the founders/managers of the firms were considered as the most relevant informants for our study. The in-depth interviews lasted between 60 and 180 minutes. Three rounds of interviews were conducted, at consecutive points in time, thereby securing that data collection and data analysis overlap, and adjustments can be made. In addition, extra data sources were used for triangulation, such as information from websites, field notes from various public events and presentations, articles in press, and survey answers from a follow up study. Appendix B describes our cases. The analysis can be divided in three consecutive steps.

*Step 1: Discovering the paradox.*
In the first interviews (n=7), the managers were asked to elaborate on the business decisions that theoretically are considered as pertinent to the business model concept, and their relationship to the values and goals of the firm and entrepreneur in a broader and a more open-ended manner. Similarly to Andriopoulos and Lewis (2010) and much of the earlier literature outlined before, we actually set out to explore frustrating dilemmas and how business model related decisions are made to prioritize the one or the other pole, only to realize that we are dealing with a paradox. More specifically, the initial hypothesis of the project was that firms can have either a creative orientation or a commercial orientation, and that this will impact how they set up business models (different from each other) and hence determine how they perform creatively

and financially/commercially. After having done the first analysis of business models and orientations of each firm, we noticed patterns that invited to reconsider how we understand the interplay between creative and commercial goals. We then adopted a paradox lens, reanalyzed the existing interviews and adjusted the interview schedule. Table 2 illustrates the tensions between creative and commercial organizational goals experienced by the respondents in our sample using quotes for each of the defining features of the paradox. In the last two rounds of interviews (n=9), we asked more specific questions on the paradoxical aspects, tensions, and practices found in the first round. We also asked to elaborate on the changes over time to see how some paradoxes are dealt with over time.

Table 3.2: Experiences of the paradox.

| Features of the strategic paradox | Illustrative quotes |
|---|---|
| Conflict | "I guess in the end design agencies have similar issues, which is in the end selling creativity. It's something that is very difficult. I mean, selling. it's very hard to tell to a businessperson, OK, we need so many days for this project. OK, what are you going to do? I don't know, we might sit in the garden and look at the sky for ten hours, you know. (Case 1)<br>'Look, eventually I lose, if I say: this is only commercially attractive. For instance, we could have worked in Saudi Arabia. Commercially attractive, at least if they pay, but you can earn a lot of money there, if you're good. But we [as an enterprise] simply do not want to work in Saudi Arabia, you know. So I could stand on my head, that's simply not going to happen.'(Case 16) |
| Interdependence | [...] in fact, if you look at the advertising [field], the commerce and creation naturally lie close to each other. You're being hired as a creative firm to give creative advise about something that they cannot do themselves. So on creativity. In between you have to listen to them as a service provider. Ultimately you have to keep your client satisfied and that is a terrible scene of tension."(Case 6) |
| Persistence over time | "Money has to be earned and you can call that"commercial". Yeah, I just find it a necessity. One has to earn money, also in creative enterprises. [...] If we concurrently will prioritize commercial gain over creation, then there will be no more beautiful projects. Then you'll be... if you make so unique things as we do, you cannot do that." (Case 11) |

*Step 2: Business models for paradox management.*
After having adopted the paradox lens, we conducted another coding round, where we were searching for paradoxical experiences and decisions that allowed firms to cope with the strategic paradox. We looked for emerging patterns (code overlaps) allowing us to frame specific business model choices as responses to conflicting strategic tensions. The findings were used to make a first list of strategies that firms are using for paradox management. We followed the suggestions of Gioia et al. (2013) and the example of Andriopoulos and Lewis (2009) for structuring conclusions derived from qualitative data in inductive research. In addition, based on the literature, we created a checklist of features that would help to classify a business model choice in terms of integration and differentiation strategies. The following features were summarized:

A business model design decision made according to the *integration approach* addresses both strategic goals (in our case creative and commercial goals) simultaneously. It aims to bridge the two poles of the paradox in such a way that they inform each other. This approach is characterized by seeking the middle ground, balance and alignment in the system.

A business model design decision made according to the *differentiation approach* addresses both strategic goals separately at different moments in time or using separate structures. It focuses on enabling both by segmentation, either creating separate systems, or shifting and oscillating between the poles. It does not

include design solutions where only one of the goals is attended, as that would be consistent with a trade-off approach.

*Step 3: Comparing cases and theory building.*
We used the developed descriptions to construct a deductive coding schedule with codes for both paradox management strategies. The aim of this coding round was three-fold: 1) to generate a list of integration and differentiation practices for paradox management through business model design, and 2) to assign cases to the specific paradox management practices, enabling cross-case comparison. The exhaustive list of integration and differentiation strategies we generated was then discussed with an expert group consisting of three other scholars in related fields and four representatives of the industry in order to select the most important strategies to focus our result discussion on. We compared cases to seek patterns for further theory building (Appendix C). The analysis resulted in a final list of four integration and three differentiation tactics applicable to business model design choices for resolving paradoxical tensions. We discuss them in the next section.

## 3.4 Findings: Designing business models for paradoxical goals

> 'The balance is never there. You're always looking for the balance. There is a very beautiful drawing of a seesaw. Do you know what a seesaw is? [...] You have to draw a bag of money here. With a dollar sign, very good. And a heart there. So you are looking for the balance. If there's too much heart in it, you're earning too little money. If you earn too much money, there's not enough heart in it.'(Case 10)

As this quote illustrates, the leaders in our setting are aware the fact that their economic activity is embedded in and results from two opposites, which require the act of balancing. We focus on how this paradoxical thinking is enacted when making within-business-model design decisions. In our analysis, we were looking for the application of integrative and differentiating considerations upon the decision-making process across all the business model choices outlined in Table 1. Are they made in a way to address both creative and commercial goals simultaneously or separately? Based on these decision-specific insights (Appendix C), we extracted the seven tactics (Figure 2) that were used across the different domains. We first discuss the four tactics pertinent to the integration approach and how they are used in business modelling; we then proceed to the differentiation tactics.

### 3.4.1 Integration tactics

According to the literature, integration approaches aim to find ways in which the two poles of the paradox can inform each other. Integration aims at merging of the best sides of both, seeking the middle ground and alignment. Hence, decisions that can be classified as integrative with respect to our paradox have to result in simultaneously contributing to innovativeness, quality, and efficient commercialization. The patterns across our cases reveal four decision-making tactics that can be described as integrative - focusing on singles, developing paradoxical niche combinations, seeking complementarities, and implementing flexible solutions (see Table 3 for an overview of findings).

#### 3.4.1.1 Focusing on singles

The first integrative tactic used by our firms could also be labelled as "keeping it simple." This tactic entails making very simple business model design decisions - defining simple value offerings, providing services at only one part of the value chain, maintaining a strict service logic, targeting specific, well-defined markets and client segments, or using simple, mostly traditional revenue models.

When applied to value proposition design, for instance, this tactic resulted in specializing in providing services in a single domain (e.g., spatial design, brand and communication, or advertisement), or even more specific

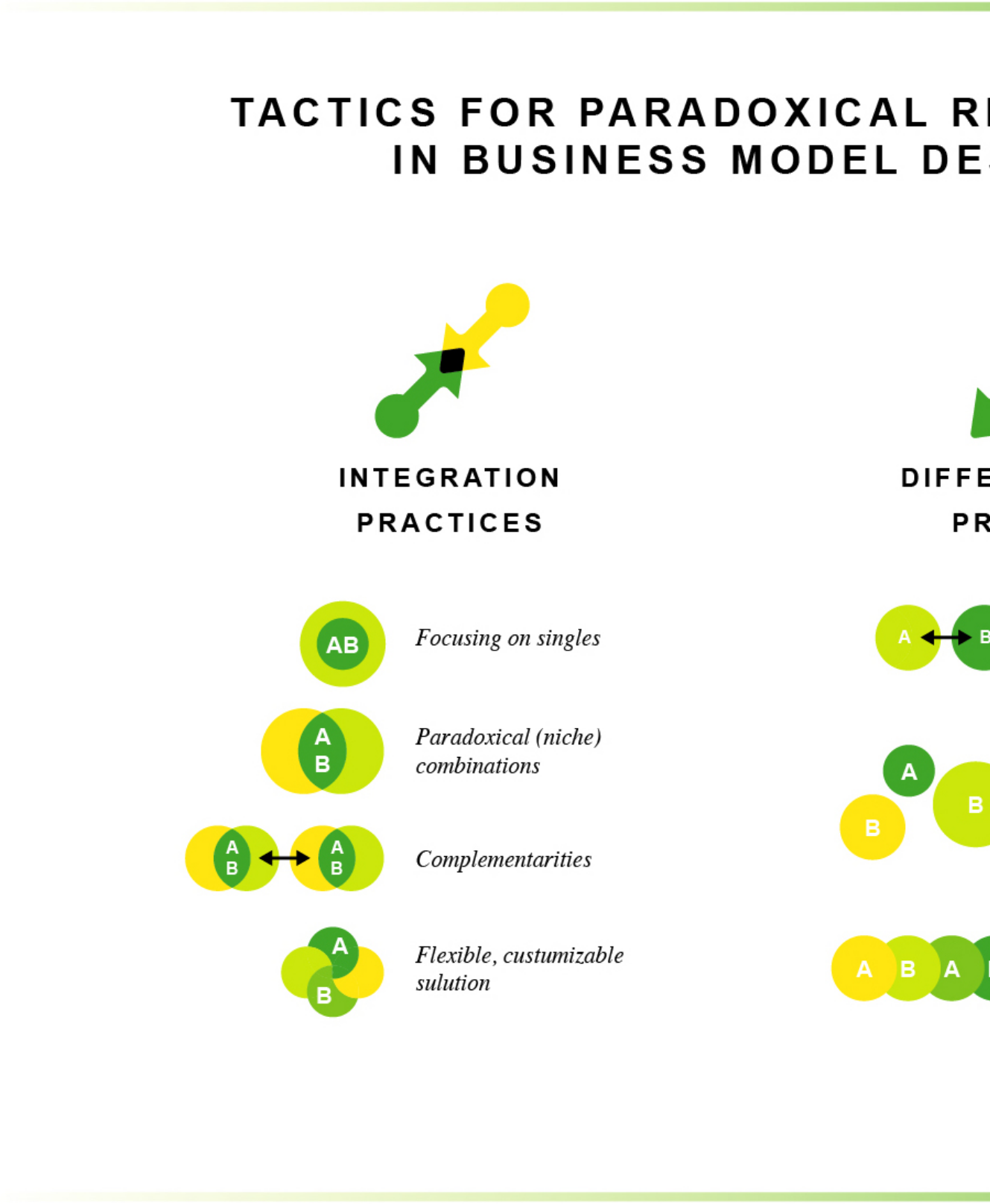



Figure 3.2: Tactics for paradoxical resolution in business model design.

services from a particular domain (e.g., exhibition design, website development). Such value propositions are quite easy to pinpoint, such as "we are a small design agency specialized in brand and packaging design." The same approach was also applied to the value chain activities that are included in the value proposition by firms" choosing only a single part, mainly the creation phase, as the offered service.

Focusing on singles also came about as a strategy to cope with the creativity-commerce tensions among the firms that chose to keep their business strictly to a service offering, not even considering offering products. More precisely, the firms did so by avoiding the introduction of two "side-effects" of productization - complexity and increased attention to marketing and sales, which could cause a misbalance in the focus of the firm in favor of the financial side. The following quote illustrates the ways in which a service logic (and focusing on singles, in general) helps to focus on full integration of creative and business activities:
> >'We've got our services business, and we just sell our [services]. A lot of people asked me over the years, 'Don't you want to make a product yourself, which is scalable and which can grow and which you can sell to thousands of people?'[...] We have a lot of ideas all the time but if you are doing projects, it's really hard to mix it with the products. Because if a [service] client calls, then everybody's getting off their own products, and everybody goes to work for the client. Then this product dies, and you pick it up and you're too late.' (Case 15)

The same tactic was also applied to the choice of revenue models. The interviewee from one spatial design agency explained:
> >'We have a very simple revenue model, actually. We say - an hour factory. We live from the honorariums of our clients. And we never earn anything from the materials of execution of the projects of our clients. [...] We want to have the purely creative part as our product. We always work with suppliers that are contracted by our client, not us. That is our business model." (Case 5)

All in all, although it might appear counter-intuitive that a focus on singles could help to accommodate a dual strategic paradox, applying this approach to any of the business model decisions minimizes the requirements needed to implement them, whether it would be in the service content, resourcing, or other domains, contributing to undivided organizational attention. It consequently allows firms to focus their attention on making sure that their offering is both of high creative quality and brings in enough money. Nevertheless, firms using this overusing this tactic might rely too much on the industry standard business models " specialized creative knowledge offering, where a lot competitors do the same, and working based on hourly rates making it difficult to negotiate rates and account for all the hours invested, thereby decreasing profitability.

#### 3.4.1.2 Developing paradoxical niche combinations

The second integrative tactic throughout the business model entails paradoxical merging - making decisions in such a way that they combine the best of the two paradoxical poles, using paradox as a source of advantage. Contrary to the "seeking complementarities" tactic discussed further, which uses external possibilities as source for an integrated paradoxical resolution, this tactic relies on internalizing integration. Among the firms in our sample, this tactic was mainly applied to value proposition design, resource acquisition choices, and sometimes market selection decisions, although it could equally be applied to revenue models.

For value proposition design, developing niche combinations prescribes merging different knowledge kinds, activities, or offering types, where each represent one of the paradoxical poles, into a single value proposition. For instance, in addition to concept creation, a company would also take care of some of the executive or marketing-strategy parts. They would emphasize the combination in their service description, yet never offer them as separate value propositions.

The combination tactic was equally applied when making resource acquisition decisions. In our analysis, we categorized in-house resourcing as an implementation of this tactic. It entails that all the important resources needed in order to deliver the value proposition - both creative and business ones - are "owned" by the organization and that the organization carries out the activities on its own. In-house resourcing brings both poles together by creating an alignment between what is offered to the client and what the firm can do itself. Not only does it create a context for bridging the paradoxical identities in a single firm, but also

gives more control over the execution of the business. As explained by the managing director of a spatial and interactive communication design agency who have also the production resources in-house:

> "Many firms in the creative sector do either only concept development or prototyping, but definitely not the production, but I think exactly if I know a lot about production and have a small core team of that [...], then I can do it a lot quicker and better, and I keep control over the end result. And I consider it really important, that it turns out really well." (Case 11)

While less apparent, this tactic was also often used when choosing markets and clients. Since the creativity-commerce paradox most often manifests as an inability to prioritize profitable work (and hence clients) over creatively challenging work and vice versa (Bos-de Vos et al., 2016), firms applying the niche combinations tactic deliberately chose to work only with clients that bring returns for both paradoxical strategic goals. Developing niche combinations is the tactic that most obviously allows firms to thrive on paradoxical synergies, as it brings together both paradoxical poles in a merged decision. The downside, however, is that niches limit the scope of the firm"s activity to something rather specific. This makes firms often struggle with finding enough clients, markets, and opportunities.

#### 3.4.1.3 Seeking complementarieties

Another tactic, which brings both poles together, we labelled as "seeking complementarities." Contrary to the previous one, this tactic is based on searching for support for the paradoxical business model externally to the firm. It prescribes finding external complementary solutions that take source in similar paradoxical strategies yet can support the business model of the focal firm with complementary assets or structures.

One such application among our firms was that of establishing collaborative networks. Prior research in social entrepreneurship has already suggested how establishing collaborative networks can help the double agendas to thrive (Yunus et al., 2010). What we identified as collaboration among our cases is based upon the idea of "shared decision-making", as opposed to outsourcing the commercial, and less interesting, parts to a supplier network. The managers that used this tactic in resourcing decisions did not attribute particular creative, commercial, or executive roles to different parties with whom they had established relationships. Instead, these collaborative networks attracted partners with similar vision, but complementary assets, enabling co-creation.

This approach was particularly common in the context of complex discipline-spanning value propositions. As emphasized by several interviewees, the development of certain services and products is becoming increasingly complex. Only simpler propositions can be created without collaboration. The complex ones need a network of knowledge that takes shape depending on the project and is impossible to contract on stable terms with adequate returns on resource acquisition. A partner of a product design agency explains:

> " It's more about collaboration than outsourcing. [...] I have a broad network in that field so I just pull in parties. Not as a subcontractor, as a partner. Because as a subcontractor you're still on a risk, it's your risk, if they fail. [...] It's about sharing risk, sharing knowledge, but also sharing profits, sharing success." (Case 7).

This tactic was also found to be a common way of dealing with the creativity-commerce paradox at the venture creation level. Instead of having separate cross-subsidizing ventures where one would take care of the creation part and the other of the product and marketing part, the ventures that followed this approach, spun out as similar, yet complementary services. In such cases, both ventures worked based on the same values and principles and equally embraced the paradoxical goals. Most of the times these ventures offered services that could be included in the same projects but did not form a combined value proposition (i.e., were complementary). Examples are interactive design and back-end development, as well as spatial design and audiovisual services. This approach provides the firms with more work, as they can be each other's clients, yet it does not mix up their value proposition. This tactic integrates the paradox in that it gives more influence over the creative content and at the same time provides firms with the possibility to diversify their revenue streams. The founder of a spatial design agency specialized in retail design explains this approach:

> "Company B is a part of our enterprise. If you're talking about retail design, then it entails communication, branding and positioning. Where actually the whole branding, brand development is seen as a sort of core activity. There is a gray area between advertisement and communication. What happens in the store, happens in the world. With all the online [developments]. Then you're talking increasingly about the whole customer journey. A brand has a number of contact points with points with the client. It is the store itself, bet also the webpage or the app. You name it. The story that you're telling there, you're not only telling in the store, but at all those points. If we want to be a specialist also in that, then we need our own PR and communications agency. We have worked with other agencies in the past but that was difficult. In the end, we wanted to have our own communications agency." (Case 5)

#### 3.4.1.4 Implementing flexible structures

The final integrative tactic that was applied to business model decisions by our respondents was that of implementing flexible structures. The most apparent application was found at the level of service architectures. Fluid value proposition enabled through full customization were used as means of bridging creative and commercial aspects in an assimilating whole. Such paradoxical customization involved treating each project as unique. Firms admitted to defining the specific services delivered only after engaging with the client; no prior rules were set and the very process was adapted as needed. The project terms and rules in a paradoxically flexible service delivery are constantly fluctuating, accommodating both creative and business elements in a non-discriminating manner. Several interviewees revealed that such an approach helped them to mitigate the tensions as the firms embraced the integrity of the project process from the beginning to the end. This allowed them to create a space to negotiate whatever was needed to meet both the needs of the client and the firm - creatively, as well as business-wise. Moreover, not only does it give space to rule negotiation, but the approach also elevated the feeling of repetitiveness:

> 'You know, we don't want to be a one-trick-pony, so in that sense we want to do every project, even though the project shares some resemblance with another project, we want to do it anew, and start from the beginning again. So that's one of the biggest aspirations, we want to innovate.' (Case 1)

Table 3.3: Summary of findings for integration tactics.

| Tactic | Description | Advantages | Disadvantages | Examples and quotes |
|---|---|---|---|---|
| Focusing on single | Making such decisions that only entail choosing a single aspect to focus the organizational attention and resources to. | Minimized complexity, low resource requirements, clear external communication of what the firm is doing, undivided organizational attention, low risk. | Low entrepreneurial returns, little room for radical innovation, restrictive, reduced markets. | E.g. focusing in service delivery:,'No, we don't do our own products. That is a whole different kind of 'sport'. [Even if you do], your success is also not guaranteed. If you do want that, you immediately have to do 5 or 6 products, but, yeah, only one or two succeed." (Case 3) |

| Tactic | Description | Advantages | Disadvantages | Examples and quotes |
|---|---|---|---|---|
| Niche combinations | Making decisions so that the solution originates from uniting the best aspects of both poles of the paradox internally to the organization. | Integrity, unique solutions based on a paradoxical vision, clear criteria for decision-making. | Reduced markets, unused resource and skill potential. | E.g. developing creativity-based value propositions in traditionally commercial markets. "We strongly believe in live communication as the communication means for enterprises to do business.,[..] If you ask us, the live contact in industry markets, events, or showrooms has a crucial role in doing business.,['] 'Affection' is a strong and important word in this world dominated by excel sheets. ['] That is our niche. We try to increase the connection between our clients and their clients through creating interesting environments where people feel at ease.,['] Our competitive environment is dominated by marketing companies and stand constructors. ['] If we tell someone that this is a design domain, they're like: 'Wow, I didn't know'." (Case 8) |
| Seeking complementarities | Making decisions so that the solution involves integrating actors, resources, or structures external to the organization. | Learning from the experiences of the like-minded, reduced possibility of conflicts due to similar mindsets and orientations, integrity, extended scope of opportunities. | The chance of missing essential components needed to run the business model, due to over-specialization, more complex management. | E.g. finding partners with similar vision,and specialization, but different skills:,"Interviewer: Have you ever tried to,fully commercialize your own products? Interviewee: Yes, we tried. We,miserably failed.[…] We learnt that, let's say, being a good product,developer doesn't mean that you're a good salesman. […] we've learnt that,if we jump into a project, if we participate, then a couple of things have to,be in place.,You have to know your,technology partner. We don't do electronics, so we need to know who's going,to do the electronics and if they're capable of doing this job. And the same„usually it's like a trial, the third party is the party that's going to take,it to the market. Are they capable of actually selling this product? I've met,so many people saying:"I'm going to sell this." And then yet they,don't. So, do they really have access to the market that you're targeting? Do,they have a good reputation? Do they have the sales people on the road? Do,they have the money to spend on advertising, on the right things? And if you,don't trust them, you don't do it." (Case 14) |

| Tactic | Description | Advantages | Disadvantages | Examples and quotes |
|---|---|---|---|---|
| Implementing flexible structure | Instead of focusing on the specific single decisions, awareness of both paradoxical goals is created, yet the decision-making is reactive and customized, depending on the specific problem at hand. | More power to shape processes, less confrontations and conflict possibilities, co-creation and co-ownership of decisions. | Uncertainty, lack of rules, bigger chance of misbalance if one of the paradoxical goals is in general favored by the organization. | E.g. creating a flexible project management process where there is room for introducing changes: "If you notice - well, I thought it would go this way, but now I actually find this important, then you can still influence that process. So, you're not going to say already in the beginning what the output will be, you're only telling - this is the input, that's the content, and I want a website out of it, but how it looks like, or how you're going to do it, that we're going to discover together, and within a time frame you're going to take small steps. And that works out very well for us, because, yeah… we don't have to promise all things in the beginning, when we don't know if that really will be so. The requirements are less important. And second, also because it's more creative, and you are way more aligned with the client, more like partners - OK, we have this challenge and we have so much time, let's make the best out of it."(Case 4) |

### 3.4.2 Differentiation tactics

Differentiation approaches to paradoxical resolution, according to literature, aim at making separate decisions and implementing separate structures for satisfying the different purposes or poles of the paradox. The focus of such approaches is at keeping the two poles away from each other in order to avoid conflicts, yet still acting upon both. We discovered three such differentiating tactics that managers use in the process of designing their firm's business model: cross-subsidizing, differentiating through scale, and implementing modular structures.

#### 3.4.2.1 Cross-subsidizing

The first differentiation tactic is that of cross-subsidization. This strategy entails structuring assets and processes in such a way that one set of them ensures creative returns, and the other - financial ones, and the totality of them make sure that both are reached. The most common examples of applications can be found at the levels of client segmentation and new venture creation, although it can equally be applied to other business model domains.

At the value delivery level, firms that apply this tactic choose distinct client segments for each of their strategic intents separately. This means they shift between different kinds of projects. In line with this tactic, certain client groups, markets or project types have different purposes in the business model. In our setting that involved distinguishing between projects for financial and entrepreneurial purposes, and projects that fulfill the creative aspirations. The creative director of an all-around creative agency explained:
> >"Some projects are really money projects. Some are more for the reputation. For instance, we also work for banks. These are in general really money projects.[…] But the most beautiful is that it sometimes is also mixed, that you get good money for it and it is a really cool project." (Case 3)

In line with the prior literature, we also found this tactic useful for new venture creation. In our sample, new ventures were separated from the core business. These separated ventures would take care of either the more

creative or the more business goals. This structural arrangement allows the new venture to benefit from some of the resources developed earlier but enables the employees in the original venture to pay undivided organizational attention to its core value proposition (Tse, 2013).The founder of a product design agency told their spinout story:

> "And we also have a spin-off Company B. That is a separate enterprise with different owners where our company is one of them and we do development for them. But they also make and sell products, while we only deliver services. And that is one of the… one of the distinguishing features since we are anyhow connected through our own initiatives. That can sometimes be projects that are only made to improve our portfolio and publicity, and sometimes also ideas that we come up with and would like to sell on the market." (Case 14)

Furthermore, some of the firms interviewed applied this tactic to *diversify* their service business models by offering products. These firms used a diversified product/service portfolio as a cross-subsidization approach in two ways. Some firms engaged in occasional 'small product' development and marketing as a means to use employee slack time and to motivate them for finding new areas of creative expression and experimentation. Other firms, attempting to make extra profit by turning ideas that they have developed during exploration efforts in service work into marketable products.

The cross-subsidization tactic has obvious benefits in that it allows to tackle both poles without having to limit the scope of possibilities, as it was the case in applying the integrative tactics. However, it also bears some disadvantages, as it requires the attention to both poles to be equally spread over time and "scale". To exemplify, in our research setting, employees do not always equally value the commercial projects as opposed to the creative ones. If there are too many of the first, the employees might lose motivation. While if there are too many creative projects, a company might not be earning enough money. This balance is not always easy to control, when considering the development of a business model over time.

#### 3.4.2.2 Differentiating through scale

We labeled the second, less obvious differentiation tactic discovered as 'differentiation through scale.' It entails increasing the overall number of projects, clients, employees, etc., which increases the likelihood that managers pay equal attention to both poles. This tactic was mostly applied to the business model aspects of value proposition design and client choice. For instance, when applied to project selection, firms would increase the size and number of both creative and commercial projects so that the chance of working on the projects that are interesting increases. One of the founders choosing this strategy explains it as follows:

> "We figured out that, if we want to have more impact as a company because we want to do more innovative products that really have some benefits for people or other things, that's our big goal… we need more projects that might go into that direction. So, we can either focus all projects on that goal, but that's not possible because you always just need volume to do that, and if we have more volume then there is more chance that there is a project that will be in the end that really innovative project."(Case 15)

Other firms increased the number of activities along the value chain they offer, ensuring that, all together, they achieve their creative or business goals. Others used this tactic to diversify their knowledge portfolios (e.g., "strategy, design and technology" or "design and realization of extremely diverse products and product-service combinations for the brand and market of its clients"). Such value propositions would be intentionally vague and cover a large number of possible offerings, thus requiring also a lot of skills and resources, yet would give the firms the freedom to work on a very diverse set of projects.

#### 3.4.2.3 Implementing modular structures

The final differentiation tactic applicable to business model design in paradoxical settings according to our findings is that of implementing modular structures. This tactic prescribes dividing the offerings, revenue

model structures, or creation processes in smaller pieces or components, where each of the components contributes to one of the paradoxical poles separately. Together the specific smaller components would ensure that both poles are equally attended.

To exemplify, some firms were using modular service architectures, where additional, less creative-input-intensive elements were introduced to the value proposition. Those elements were not new activities or knowledge, but simply separate components that were repeated over time. This tactic helps to reduce the requirements on creative work to deliver economic value at all times through a structure where some service components have more financial value for the company, and others more creative value. Examples of such components include setting up standardized workshops for client problem definition, maintenance services, repeated services, technical updates, or taking care of print work for brand communications. These extra services were almost never seen as creative content generation, but more as an extra income source. As one managing director of a communication design agency exemplified:
>>'Yeah, so once [a company] buys a website, then they would [need support] every month… we [would] offer support and come up with new features, and those features and support for our long-term clients make up approximately 50 % of our turnover.'(Case 4)

Another application we found was at the level of resource acquisition. In some cases, firms would acquire all resources in-house, but instead of trying to create synergies among the different units, they would organize them separately, similarly to a profit/cost center approach. The activities would be divided in terms of the creative teams or units, for instance, the creative office, the production unit, etc. They would offer small services by the separate units separately, thereby capitalizing upon the resources that are available to them.

The concept of modularity is being discussed more frequently in the management literature, including the benefits of applying its principles in service firms to minimize the loss of efficiency (and thus money) due to extreme customization (Voss and Hsuan, 2009). Our findings support this idea and further extend it by highlighting the capacity of modular solutions to address paradoxes. We show that modular solutions can bring together conflicting considerations in a structured and organized ensemble. Among the firms in our sample that implemented a modular approach to their offering and process organization, the paradoxical juxtaposition did not come across as often. Systematization introduced boundaries to the creative efforts required from employees, and at the same time, clearly indicated what financial returns can be expected. But the boundaries were not perceived as constraining; they were described as enabling instead 'defining more clearly the expectation of the type and degree of returns expected from each 'module' of activity. While establishing such structures requires quite some managerial effort, the benefits, as stressed by our respondents, can create more room for creativity, experimentation, and, paradoxically, flexibility.

Table 3.4: Summary of findings for differentiation tactics.

| Tactic | Description | Advantages | Disadvantages | Examples and quotes |
|---|---|---|---|---|
| Cross-subsidization | Making decisions so that dual, parallel systems are created, where separate actors, resources, or structures cater for each of the paradoxical goal separately through shifting over time or in space. | Diversity, efficient resource use, less constraints on separate projects, resources, structures, markets, straightforward division of roles, hence easier communication. | More complex management, need to make sure the balance over time is in place, lack of overlap and synergies between the two poles, chance of disintegration. | E.g. distinguishing between projects that are for employee creativity and projects that bring in money: 'If I would calculate that back to like an hourly fee, I'd probably go cry somewhere. But those projects are interesting to us […] It sort of changes everyone's' dynamic. And people here like it. You know, it's nice to suddenly feel like you have to be in a pressure cooker and it also feeds back into the output, I believe. So in that sense I don't mind if those projects are paid a little bit less. Because they are done within a week, we have a lot of creative freedom and they're highly visible.' (Case 1) |
| Differentiation through scale | Making decisions so that the number of available work, employees, resources, or structures is increased so that the likelihood that the totality of them caters for all the paradoxical goals increases. | Integrity, unique solutions based on a paradoxical vision, clear criteria for decision-making. | More complex management, increased resource requirements as the scale increases, balance is not guaranteed. | E.g. increasing the number of projects acquired: 'We figured out that, if we want to have more impact as a company because we want to do more innovative products that really have some benefits for people or other things, that's our big goal' we need more projects that might go into that direction. So, we can either focus all projects on that goal, but that's not possible because you always just need volume to do that, and if we have more volume then there is more chance that there is a project that will be in the end that really innovative project.' (Case 15) |
| Implementing modular structures | Making decisions so that the solution consists of several (parts of) actors, resources, or structures, i.e. components that are organized in a formal system where each part fulfills to the requirements of one of the poles yet can be rearranged and called into action depending on the specific situation. | Diversity, efficient resource use, less constraints on separate projects, resources, structures, markets, more opportunities. | Possibility of creativity loss, if applied too much, complicated structures to implement at the offset. | E.g. dividing project in phases that are creative and others that can be made more efficient: 'It always has to be commercially feasible-in the way, of course, we have to make a calculation beforehand of how much time we're going to spend. And we aim on doing it in that time, but it is always a fight between quality and time […]. We can always work more… The limits- and that is actually where we're growing and teaching each other. How the process should be communicated internally. […] in certain phases, you can be very fast, but that is- you have to know when you do what. That is the commercial approach to- at the end you have to make money and it's very expensive to have a design house like this, with so many people.'(Case 13) |

| Tactic | Description | Advantages | Disadvantages | Examples and quotes |
|---|---|---|---|---|
| | | | | E.g. defining package-like payment arrangements. "We have made a price menu with small, medium, large, and extra-large option. So [as a client] you can just choose what you find the best. ['], otherwise you're just endlessly negotiating and offering, and I have zero interest in that."(Case 6) |

## 3.5 Discussion

Our results proposed seven tactics managers can apply in order to incorporate considerations about paradoxical goals into the business-model-related decisions. The result section illustrated how creative service firms apply these tactics in order to accommodate creative and commercial considerations in their business models. We now proceed to discuss three important implications of our findings - the cognitive nature of business modelling, the interactions between the different tactics, and the applicability of the discovered tactics in decision-making beyond business models.

### 3.5.1 Cognitive business model design under pluralism

First and foremost, our conceptual framework and findings revealed the cognitive and intentional nature of both business modelling and paradox management. Undoubtedly, business models exist irrespective of the paradoxes that the firms have to deal with; they can be designed to address a paradox, or not. While some business model design choices in the real life might seem as they have been made with the paradoxical aspects in mind because they resemble what has been described in our findings, it is not always the case. For instance, client segmentation can be simply client segmentation, but it can also be paradoxical client segmentation, separating each of the client groups on the basis of their contribution to one or the other goal. In a similar way, we can observe the choice to offer both services and products, yet not in all instances we would be able to link this choice to paradox management.

This observation confirms the proposition that different interpretations of and commitments to paradoxical goals shape the variety of ways in which firms link business model design and organizational goals (Ocasio and Radoynovska, 2016). From an empirical perspective, our findings might not be that useful if one wants to discuss classifiable and observable business models, because we simply cannot estimate without inquiry if a business model decision is made with a paradox in mind or not. However, at a more conceptual level, our results improve the understanding of how business models are cognitively designed by managers using the *components* (choices) that are available to them. This way, the application of paradox lens brings closer together the two traditionally distinct interpretations of the business model concept, namely, business model as attributes, understood as a combination of real life decisions (Massa et al., 2017), and business models as cognitive devices, where those are conceived as malleable configurations in the minds of managers (Baden-Fuller and Mangematin, 2013; Demil et al., 2015).

### 3.5.2 Synergies and pitfalls in paradoxical business models

We leveraged the paradox literature, in particular *the dynamic equilibrium model of organizing* by Smith and Lewis (2011) and Smith (2014), which allowed us to conceptualize the decision-making with respect to paradoxical goals as either integrative or differentiating. In our empirical analysis we discovered four integrative tactics and three differentiation tactics of decision-making for business models. In line with paradox theory, we saw that firms simultaneously use a mix of both types of tactics. The summary in Tables 3 and 4, as well as the result section make clear that each of the tactics has advantages and disadvantages.

We thus confirm the more recent proposition found in the literature (e.g. Smith (2014)) that integration and differentiation approaches have different purposes in the process of paradox management and are both needed.

As we discovered, integrative business model choices make it more explicit what exactly the firm is doing and thereby sends clear market signals. They also reduce financial risks through either avoiding risk-taking or spreading them. Most of the integrative tactics are aimed at increasing the time and resource allocation to entirely creative work and gaining more control over content. They also mitigate the tensions, create space for flexible negotiations and ensure alignment, thereby reducing complexity and conflict potential. Paradoxically, the biggest disadvantage of integrating at the business model level is the elimination of the opportunities to diversify. It can create financial constraints, as there are extreme requirements on the projects to satisfy both creative and commercial success-criteria. It also implies reduced markets and fewer opportunities for economies of scale/scope and efficiency gains. The more complex application of the integrative tactics risk to have forced combinations creating even more conflicts.

Applying differentiation tactics to business model decisions increases the possible service combinations and reduces the competing requirements and constraints on single offering types, client groups, assets and the like. It imposes fewer demands on creative work to deliver economic value and provides more opportunities for economies of scale/scope and efficiency gains. The available markets and organizational possibilities are bigger and thereby also the likelihood of market success. Yet, the successful applications of these tactics highly depend on the employee capability of switching or collaborating, or the capacity of the embedded systems to accommodate such switching. There is more danger of establishing misbalanced choice patterns and demeaning attitudes towards certain types of work, resources, and other strategic choices, further intensifying the conflict between the poles. Despite the increased entrepreneurial opportunities, differentiation tactics are also riskier.

All in all, these insights highlight the symmetric relationship between the two, as well as the danged of failure, if we imagine that a firm would only focus on one or the other. Becoming aware of the advantages and disadvantages can help to evaluate the health and balance in existing business models or assist in the design of new ones. While performance effects are beyond the scope of this article, the deeper insights across cases unraveled some patterns of complementarity and incompatibility relevant for our discussion. In some cases, we observed that the combination of some integrating and differentiating tactics across different business model domains were particularly helpful in coping with the tensions.

For instance, by combining integrated discipline-spanning niche offerings and differentiated cross-subsidizing supplier networks, some firms were able to change their role from integrators of value adding activities to orchestrators. They had reframed their value proposition into that of leading the whole process, taking away most of the responsibility from the client, irrespective of whether they have resources in-house or they have to rely on a network of co-creators and suppliers. Working mostly on big complex projects, the firm would develop the initial concept in-house, lead the whole implementation process afterwards, and take full responsibility of the project success. By doing so they were able to transcend the balancing between control and financial risks, were these risks and executive constraints associated with a diverse set of activities was turned into a source for more creative and challenging work.

Another interesting combination was that of differentiated cross-subsidizing venture creation and integrated complementarities-seeking revenue models that created cross-subsidizing, yet collaborative ventures. One company in our sample had set up a separate investment venture, where they would find start-ups that they find interesting enough to work with and offered them their design services in exchange for shares in the start-up or percentages on sales. That allowed them to still work on productization, without actually developing products themselves, and even more so, also gain financial returns from challenging and experimental work.

These examples enabled firms to create business models that could be interpreted as synergistic vis-a-vis strategic paradox management. According to (Fairhurst et al., 2016), synergistic responses to paradox management go beyond the ‘both/and’ mindset and can be described as ‘more/than’ approaches. The synergies in our cases arose as a result of the interplay between integration and differentiation tactics, reframing and transcending the opposition between creative and commercial goals.

Conversely, we also noticed that other decision-combinations were difficult to execute and created constraints, instead of opportunities. The biggest difficulties were experienced by firms that rely only on one type of the tactics for designing the business models for paradoxes. For instance, firms with cross-subsidizing value propositions and cross-subsidizing supplier networks felt that implementing modular solutions in their business models would be close to impossible due to complexity. Moreover, cross-subsidizing venture creation combined with own cross-subsidization through product development was also reported a failed experiment in several cases. Similarly, firms that applied the focusing on singles and niche specialization tactics to all the business model decisions grappled with the lack of entrepreneurial opportunities and often attributed too much attention to the creative strategy. This leads to avenues for further exploration - are there certain combinations that lead to virtuous or viscous circles? Can we link certain combinations to high performance in both paradoxical domains?

### 3.5.3 Managerial Implications: Paradoxical decision-making beyond business models

Finally, and probably most importantly, we believe that the suggested tactics can be seen as general decision-making strategies, applicable beyond the business-model-related decisions. As fittingly described by Schultz and Hatch (2005) "[']practicing managers are more than aware of the complexity of strategic organization, and look to us in academia not for an account of that complexity but for help to make sense of it all."(p.338) In this respect, the paradox literature has been extremely helpful in reframing complex problems and offering an alternative way of explaining and managing tensions. However, much of the literature for now has focused on more 'human', rather than the decision-making aspects of coping with paradoxes, showing that paradox management is facilitated by paradoxical mindsets (Miron-Spektor et al., 2017), leadership styles (Smith et al., 2012), or rhetorical practices (Bednarek et al., 2017); however, less is said about how can managers make decisions in response to paradoxes. With this article, we contribute to this question by providing straight-forward, yet widely applicable tactics, that spur innovative decision-making and allow reflection about the relationship between organizational goals and decisions.

## 3.6 Conclusions

In this study, we inquired into business model design in cases where organizational goals reach beyond creating economic value and create strategic conflicts. We leveraged paradox literature to investigate how creative service firms grapple with business- and creativity-related goals simultaneously by applying integration and differentiation at different business model domains. We found four specific integrating tactics and three differentiating tactics. The overarching contribution of this paper is the combination of paradox and business model theories, confirmed and illustrated with empirical insights that produced a number of managerially relevant strategies applicable in decision-making.

Adding to the paradox literature, we introduced the business model as a new unit of analysis and hence another powerful device in the "paradox toolkit" for dealing with the complexity associated with strategic paradoxes. Our results add to the theoretical discussion not only by highlighting the diverse ways in which business model choices act as paradoxical devices, but also by providing new insights into how the integration and differentiation approaches manifest in particular ways when it comes to business model level decision-making. Integration is enabled by focusing on singles, alignment and complementarities, reducing complexity and specializing at specific areas or intersections of them. It also uses intentional vagueness and reduces boundaries in order to avoid aggravating conflicts. Differentiation, on the contrary, is implemented through multiples, diversifying and emphasizing the distinct qualities of various assets and structures and their individual contributions to the paradoxical poles. It is enabled through defining clear boundaries, assigning specific purpose in the whole system and fostering cross-subsidization. Contributing to the business model literature, we discovered how conflicting demands shape business models design and lead to subtle heterogeneity that is not always apparent when studying business models at a very abstract industry level. As suggested by Chesbrough and Rosenbloom (2002), "The initial business model results less from carefully

calculated choices from a diverse menu of well understood alternatives and more from a process of sequential adaptation to new information and possibilities" (p.550). The rich, yet at times lengthy recounts of the previous section reflect the true process of business model design, which could be compared to crafting - trying to match aspirations with possibilities in a trial and error process, from choices that have both advantages and disadvantages.

The study has several limitations normally associated with case study research, such as the small number of cases and setting-specificity. Moreover, the results show a complexity that is difficult to operationalize. Nevertheless, the lessons of this study can motivate future efforts in theory building, as well as confirming these findings in more quantitative large-scale studies. From the questions raised in the discussion section, we can identify several future research avenues - 1) applying the findings in a more systematic way and testing them in more generalizable studies, 2) investigating the use of found strategies in order decision-making domains, and 3) exploring more in-depth the issues of compatibility and interdependencies.

## 3.7 Acknowledgment

This study is a part of the project 'The battle of the souls: Cultural and business orientations of creative firms and their effects on business models, growth and internationalisation'(407-12-002), funded by The Netherlands Organisation for Scientific Research (NWO). The authors would like to thank Anne Keegan, Alex Alexiev, Dirk Deichmann, Jan van den Ende and Pauwke Berkers for their helpful suggestions on earlier versions of the paper.

## 3.8 Appendix A: Main business model choice domains for (creative) service firms.

The choice and articulation of a value proposition is the core of every business. It 'describes the benefits customers can expect from your products and services' (Osterwalder et al., 2014, p. 6). The value propositions of service firms can be described in two terms - service content and service architecture. As in other knowledge-intensive business services, the service content of the creative service firm is essentially a certain kind of codified knowledge, a know-how that supports the business processes of their clients (Miles, 2012). The chosen knowledge domain loosely represents the subfield, for instance, in our case, - spatial design, communication design, advertising, audiovisual services, etc. Firms can choose to either specialize in a certain type of knowledge tied to a niche or diversify their knowledge portfolio combining various knowledge domains across different creative fields and beyond. Furthermore, the service content also can be described in terms of the activities they offer along their particular service value chain. While most creative service firms choose to specialize in the ideation and concept creation part, they also have the possibility to diversify and include more production and marketing activities.

Service architecture describes the structure and formal decisions as to how the knowledge and activities are offered to the market. Decisions about the service architecture determine the internal structure of the service and the links between the different parts (Cheng & Shiu, 2016). [DD1] In this respect, at the two ends of the choice spectrum we find either fully customized services, adapted each time to the specific wishes of the client, or fully modular services, combining different smaller service components into reconfigurable offerings. Moreover, in addition to providing services, firms can also choose to market their own products. The most important choice with respect to value delivery in our setting is that of client and market selection. Due to the high intensity of customer contact, other traditional business model variables like distribution and communication channels do not differ across the firms at all. According to Teece (2010) business model design actually begins by selecting clients and markets. The project- and hence also customer and market selection can be seen as the most defining feature of service firms that work on a project- and business-to-business- basis. The projects they choose determine what they do and how the firm is perceived by itself, in the market and among the competitors.

As with all interrelated systems, some of the business model design choices that we have already discussed relate directly to the value creation-related choices. For instance, knowledge offering is simultaneously a choice of resources, as people are the key resources in our setting. Likewise, value chain positioning represents key activities. However, defining the value proposition does not necessarily describe how it will be created. The main value creation-related decisions in our setting deal with the acquisition and organization of resources and networks needed for delivering the value proposition. There are two possibilities - either hiring necessary people and securing all activities in-house, or out-sourcing them by creating a networked organization of suppliers and collaborators.

Finally, there are two core choices defining the value capture in a service firm's business model - revenue model and new venture creation. Revenue model describes the structure a firm uses to generate its revenues - the payment types and sources. Furthermore, since most of the firms revolve and develop around one to four entrepreneurs, their activity usually can grow to span the boundaries of a single firm, creating a collective of interrelated ventures. This can also be a conscious decision influencing the focal firm's business model design.

## 3.9 Appendix B: Case and data source description.

Table 3.5: Case and data source description.

| Case | Year | FTE | Sector | Interviewee(s) | Interviews (min) |
|---|---|---|---|---|---|
| 1 | 2008 | 9 | Graphic / digital design | Founder | 101 |
| 2 | 1998 | 7 | Graphic / digital design | Founder | 136 |
| 3 | 1992 | 124 | Graphic / digital design | Founder / Creative director | 66 |
| 4 | 2003 | 12 | Graphic / digital design | Managing Director | 107 |
| 5 | 1986 | 37 | Spatial design | Founder & Strategy manager | 88 |
| 6 | 2005 | 21 | Advertisement | Partner / Managing director | 38 |
| 7 | 1978 | 31 | Product design | Partner | 143 |
| 8 | 1996 | 6 | Spatial design | Founder | 94 |
| 9 | 1995 | 15 | Spatial design | Partner | 89 |
| 10 | 2003 | 7 | Graphic / digital design | Founder | 70 |
| 11 | 1968 | 13 | Spatial design | Managing director | 104 |
| 12 | 1998 | 7 | Spatial design | Partner / Creative director | 86 |
| 13 | 1992 | 24 | Product design | Founder | 74 |
| 14 | 1995 | 9 | Product design | Founder | 57 |
| 15 | 2008 | 45 | Interactive web design | Founder | 87 |
| 16 | 1998 | 30 | Spatial design | Partner / CEO | 92 |

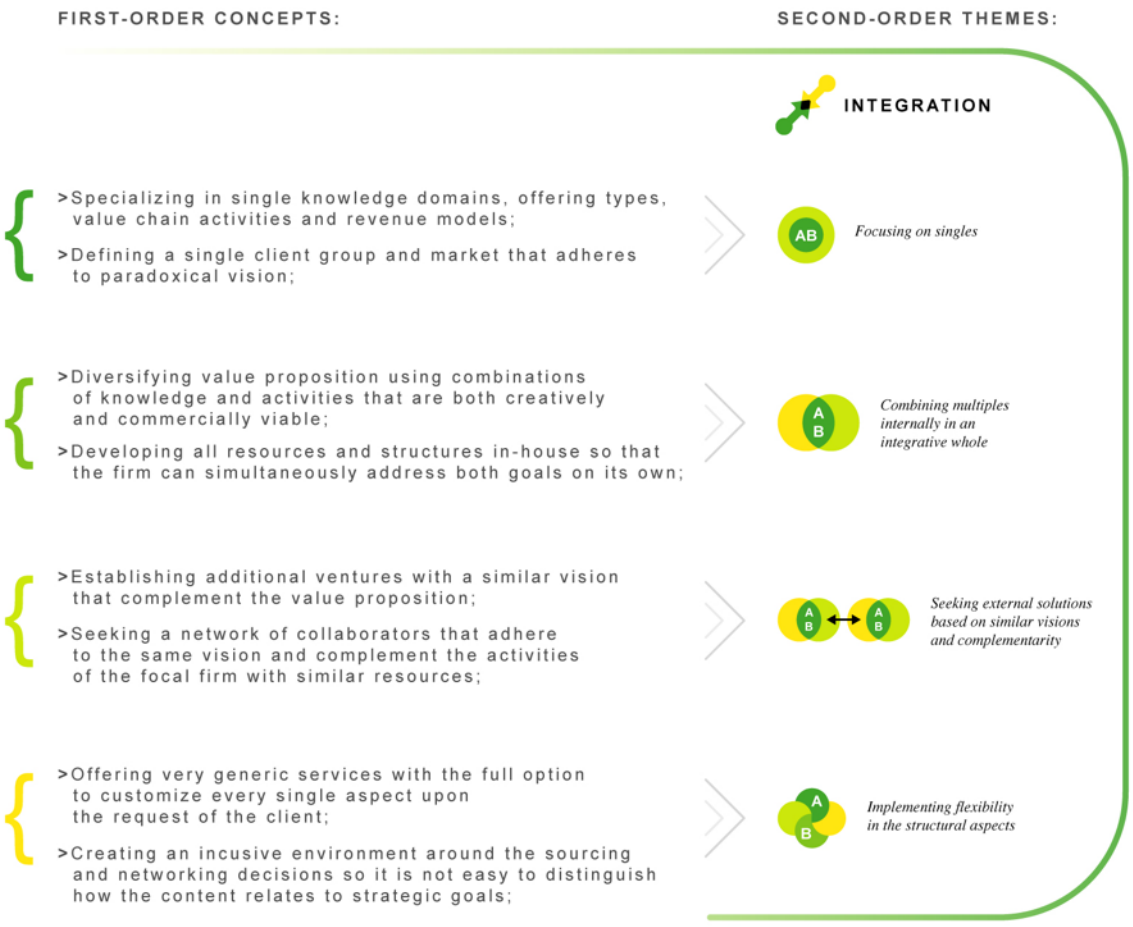
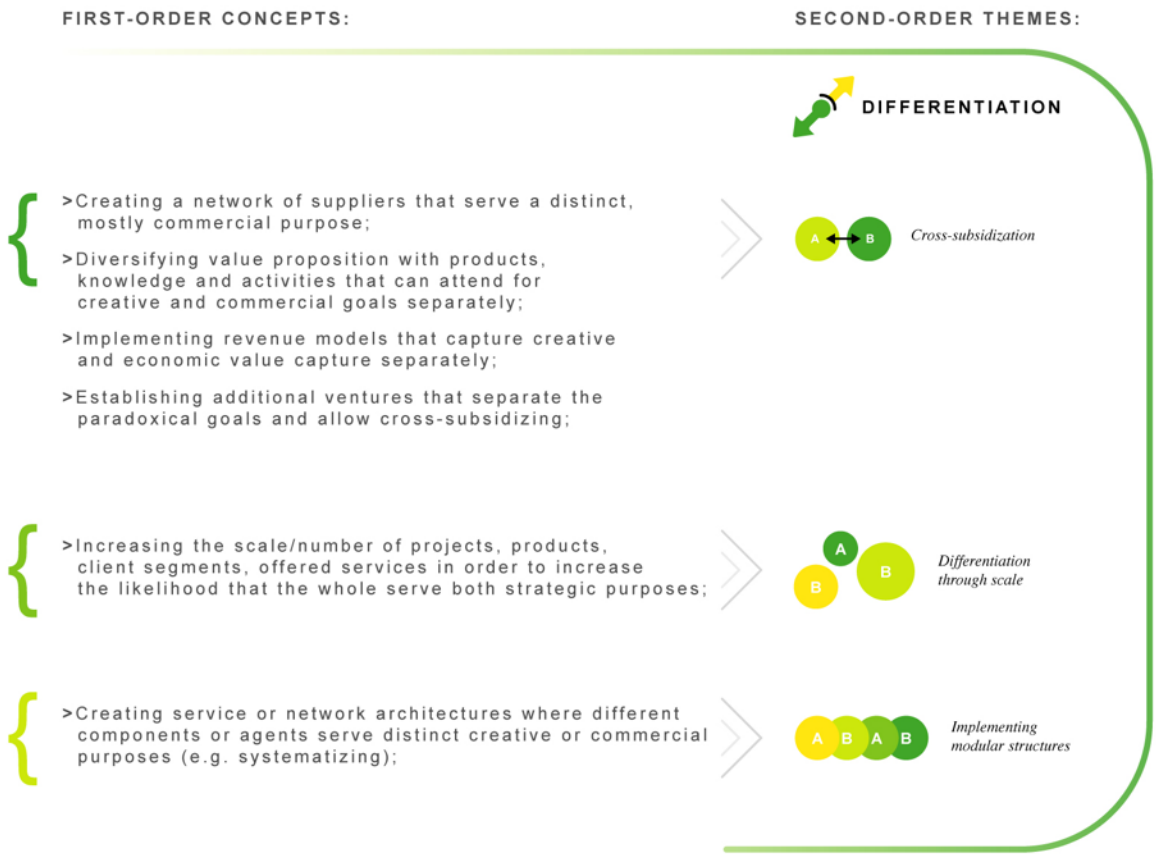



Figure 3.3: Data structure integration tactics.

## 3.10 Appendix C: Inductive research process and data structure.




##References

# Chapter 4

# KILLING TWO BIRDS WITH ONE BUSINESS MODEL:

### UNRAVELING SUCCESFUL CONFIGURATIONS FOR ACHIEVING CONFLICTING GOALS

**Abstract.** Contemporary firms often have to work towards achieving contradictory performance-criteria (Denis et al., 2007), and this requires designing complex business models (Smith et al., 2013). Paradox management, ambidexterity, and business model literature has identified several separate strategies at the business model level that would help tackling this challenge - portfolio differentiation (Andriopoulos and Lewis, 2009), client segmentation (Bednarek et al., 2106), finding complementary partners (Yunus et al., 2010), multi-sided revenue models (Osterwalder & Pigneur, 2010), and venture separation (Markides & Charitou, 2004, DeFillippi, 2015). However, it is not clear how these strategies combine, and if they can be linked to high performance. This article aims to identify the configurations of business model related decisions that are necessary and/or sufficient for performing well in two conflicting domains simultaneously. Our study is based on a comparative case survey of business modelling practices of 140 Dutch creative service firms (e.g. design agencies, advertisement firms, architecture firms). We leverage paradox theory and configurational methods to conceptualize business models as a combination integrating and separating decisions directed towards the two conflicting goals, in our case - creative and commercial success. Our results, based in a fuzzy set Qualitative Comparative analysis (fsQCA), show which business model configurations 1) contribute to a high performance in both conflicting strategic goals, 2) lead to a misbalance towards either creative or commercial performance, and 3) are representative of firms that score low on both performance dimensions.

## 4.1 Introduction

> 'Building business models that merely pursue profits almost pale as a hedonistic or pecuniary quest aside the grand challenge of building business models that matter.'
> – Alex Osterwalder

> "A:Big clients subsidise small clients. ME:What value do you get from the small then? A:Love.'
> – Alex Osterwalder

The business model has proven to be a useful concept for explaining how firms create value (Magretta, 2002) and outperform each other (Afuah, 2004; Zott and Amit, 2007). According to the business model perspective,

they do so by converting their goals (Smith et al., 2010) into better-performing configurations of decisions about value propositions, target markets, value creation mechanisms and revenue models (Baden-Fuller and Mangematin, 2013; Osterwalder and Pigneur, 2010) than those of their competitors. While viewing firms in terms of business models has helped managers, as well as researchers to understand and articulate better the processes of value creation and capture, the literature has been surprisingly over-focused on explaining the economic value creation (Massa et al., 2017), and very limited attention has been paid to understanding business models in cases were firms have to generate other value than profit.

As recently discussed in various theoretical domains, e.g. paradox theory, institutional logics, organizational pluralism, or triple-bottom line, more and more contemporary firms are compelled to satisfy competing, even conflicting demands at the same time (Bednarek et al., 2017, Besharov and Smith (2014)). The common examples of other performance goals alongside profit-making include social (Smith et al., 2013) and environmental missions (Dixon and Clifford, 2007), corporate social responsibility (Wong and Dhanesh, 2017), multiple stakeholder satisfaction (Jarzabkowski et al., 2013), or creative performance, as in the case of the research setting of this study - the creative service firms (Jacobs, 2013). The long-term success and competitive advantage of firms facing conflicting demands depend heavily on their ability to strike a balance in these different domains (Smith, 2014). The question is then - how can firms build business models that are able to manage conflicting goals simultaneously?

One can find empirical and theorerical suggestions on different strategies for managing conflicting goals applicable at the business model level in prior literature on corporate venturing, business models, and paradox management. Markides and Charitou (2004) have explored the conditions under which it would beneficial to create separate ventures for business models having different strategic intents. Andriopoulos and Lowe (2000) observed that design firms shift between projects aimed at financial goals and employee satisfaction; DeFillippi (2015) argued that in the context of media companies, vertical value chain integration of smaller production companies into bigger media businesses can help firms to tackle the ambidexterity challenge; Yunus et al. (2010) discussed the benefits of separate social and marketing networks in the context of social enterprises; Grassl (2012) examined the use of different revenue mechanisms for different client groups in hybrid organizations.

Given their interdependent nature, such "design choices in business model components cannot be considered in isolation but should be balanced in order to develop a viable business model" (Haaker et al., 2006). While the identified strategies undoubtedly can help firms to grapple the challenge of satisfying multiple performance crieria simultaneously, it is unknow how they combine. It is thus the aim of this article to unravel how these different business model level strategies combine for high performance in pluralistic (dual performance) settings.

In order to reach our research objective, we first leverage insights from paradox literature to build a theoretical framework of business modelling for conflicting goals. According to paradox theory, integration and separation are the two generic organizational and individual responses to conflicting demands. We examine prior studies that show how these are applied with respect to four business model elements - content of the value proposition, client and market selection, network organization, and revenue model. Based on prior business model studies, we also include venture separation as a variable in our analyses. We study survey data on business modeling practices of 140 Dutch creative service firms. Using Qualitative Comparative Analysis (QCA), we examine 1) how the identified separation / integration practices at different business model elements combine for achieving high creative and commercial performance; 2) which configurations can explain scoring low on one or both of the performance dimensions.

The contribution of this paper is three-fold: 1) Confirming the theoretical assumptions of paradox theory, our results show that firms that rely only on one of the strategies throughout their business models underperform in one of the performance dimensions. 2) The findings equally deepen our understanding of business models, emphasizing that specific business model elements change their importance in combination with other elements. 3) They show how neoconfigurational methods can be used in order to study business models beyond single cases.

The remainder of the paper unfolds as follows: first, we combine business model and paradox literature to build the conceptual model and formulate hypotheses. Second, the data, sample, and the suitability

and application of configurational methods are explained. Finally, we discuss the results, conclusions, and implications for further research and practice.

## 4.2 Theoretical background and conceptual framework

In order to build our conceptual model, we embed the study of business models in two increasingly prominent meta-theoretical approaches, namely, paradox theory (e.g. Poole and Van de Ven, 1989; Schad et al., 2016; Smith and Lewis, 2011) and configurational theory (Fiss et al., 2013; Misangyi et al., 2017; e.g. Snow et al., 2006). Paradox theory provides a lens for understanding how business models can serve as a device for managing conflicting demands. Configurational approach offers both theoretical and methodic tools that allow for better conceptualization and analysis of business models and their relationship to paradoxes. In this section, we explain how we connect the first two perspectives. Configurational approach is discussed in the methods section.

### 4.2.1 Business models and firm performance

A business model explains how firms "create, deliver and capture value" (Osterwalder and Pigneur, 2010, p. 14). More specifically, it can be defined as "the design by which an organization converts a given set of strategic choices - about markets, customers, value propositions - into value, and uses a particular organizational architecture - of people, competencies, processes, culture and measurement systems - in order to create and capture this value" (Smith et al., 2010, p. 450).

Studying firms from a business model perspective emerged as an alternative way of conceptualizing and describing how firms do business (Magretta, 2002). When compared to earlier perspectives, such as resourced-based view or industrial organization, the business model perspective focuses on "voluntary choices over environmental conditions" (Demil et al., 2015). The business model thus reflects the decisions firms make about their products, markets, resource organization and revenue models. By making these decisions, firms create mechanisms or systems that transform their strategic goals and needs into value.

While a considerable body of work has been dedicated to developing component-based conceptual frameworks for the study of business models (Osterwalder et al., 2005; Wirtz et al., 2016), no agreement on one single conceptualization has been reached among the scholars. Notwithstanding the disagreements, in line with the given definitions, most studies commonly distinguish four basic domains or components of business models:
- *Value proposition* describes the basic features of the offering, the type of value it is generating and the perceived basis of differentiation from competitors.
- *Value delivery* describes the demand side or the customer infrastructure that the firm builds - its target markets and customers to whom the value is delivered; how they are acquired and reached.
- *Value creation* depicts the supply side of the firm, namely, what internal and external resources, activities and structures are needed to generate the value proposition.
- *Value capture* describes the financial aspects of the firm's value mechanisms (Morris et al., 2005; Osterwalder et al., 2005; Teece, 2010).

Research, as well as evidence from the practice show that successful combinations of decisions in these four domains can grant firms advantage over competitors and explain performance differentials (Zott and Amit, 2008, 2007). This can take place in different ways. Firms can use superior business model designs upon the commercializing of new technology (Chesbrough and Rosenbloom, 2002). Business models can also be subject to innovation themselves, as firms either create new ways of delivering and capturing value in established industries (Mason and Spring, 2011; Teece, 2010), or respond to the changes in their competitive environments through business model adaptation (Volberda and Lewin, 2003). Some authors have even gone so far to say that the future quest of sustainable competitive advantage lies in business models (Casadesus-Masanell and Ricart, 2011). However, just as most of the strategic literature (De Wit and Meyer, 2010), also the literature on business models has largely ignored the fact that firms might have a purpose beyond profit-maximization (Massa et al., 2017). Apart from setting-specific studies in fields like social entrepreneurship

(Grassl, 2012) or sustainability (Bohnsack et al., 2014), business models are mostly studied as strategic decisions that help to create economic value (Magretta, 2002).

### 4.2.2 Organizational goals, pluralism and paradoxes of performing

Despite the dominance of profit-maximization paradigm, firms increasingly aspire or are compelled to create other value than the economic, e.g. social, stakeholder, environmental, and hence are pursuing several objectives simultaneously. Diverse research agendas have addressed this phenomenon, including institutional theory, triple-bottom-line, and organizational hybridity. Since our interest lies in the way managers make strategic decisions about business models, particularly, when there are conflicts and incompatibilities across the demands firms face, we leverage literature on pluralism and organizational paradoxes.

The concept or organizational pluralism is used to describe contexts that are characterized by "multiple objectives, diffuse power and knowledge-based work processes" (Denis et al., 2007, p. 180). Pluralism arises as a result of "the divergent goals and interests of different groups, each of which have sufficient power bases to ensure that their goals are legitimate to the strategy of the organization" (Jarzabkowski and Fenton, 2006, p. 631). Pluralism can find its source both within and outside the organization. For instance, in the case of professional service firms, the need to retain highly skilled employees often requires managers to act against the market interests, as the profitable work is not always the most interesting one, but the skilled professionals need to be challenged enough to be motivated to perform well (Teece, 2003). In hybrid organizations, such as hospitals or universities, competing demands are created by the need to satisfy different stakeholder groups like funding bodies, regulatory institutions, and different client groups (Denis et al., 2007).

While most settings exhibit some levels of pluralism, in particularly salient settings, it can create what paradox scholars refer to as performing or strategic paradoxes - "contradictions in organizational objectives based on the divergent definitions of success held by important stakeholders" (Bednarek et al., 2017, p.80). Strategic paradoxes are characterized by conflict, incompatibility, and interdependence (Jarzabkowski et al., 2013). The multitude of stakeholders and competing goals surface tensions as the individuals struggle to make conflicting decisions, and carry out conflicting tasks and roles simultaneously (Jarzabkowski et al., 2013; Luscher and Lewis, 2008). Moreover, since they are all legitimate, making choices is impossible. To examplify, scientific institutions face strategic paradoxes, as their sustainability depends on the long-term ability of producing excellent research, as well as the short-term immediate capacity of creating societal and commercial impact by providing educational services and commercializing research results (Bednarek et al., 2017). Other examples of settings in which strategic paradoxes are dominant include the ambidextrous firms, social enterprises, learning organizations (Smith et al., 2010), and also the setting of this study - the creative industries firms, whose success is defined both in creative and commercial terms, yet each requires conflicting decisions, resources and structures to be implemented (DeFillippi et al., 2007; Jacobs, 2012).

Strategic paradoxes are particularly influential for they penetrate the whole organization, having immediate implications for management and organization, and thereby determine firm performance and the ability to sustain itself in the long run (Jarzabkowski and Fenton, 2006; Smith, 2014). With respect to performance evaluation, strategic paradoxes create what we could call the double-success criterion (Jacobs, 2013) or double performance standards. Literature on social entrepreneurship, corporate social responsibility, sustainability, and triple-bottom-line has argued that performance measures in such increasingly complex settings have to be extended beyond profit to include measures concerning, for instance, social performance, environmental performance, markets, customers, internal processes, and learning and development (Hubbard, 2009). The question within the context of our research is - how can firms deal with paradoxes of performing when designing their business models?

### 4.2.3 A paradox approach to business models: The conceptual framework

Figure 2.1 illustrates the assumed relationship between organizational goals business models and firm perfromance under the classic profit-maximization paradigm. This is the way most business model literature studies business models.

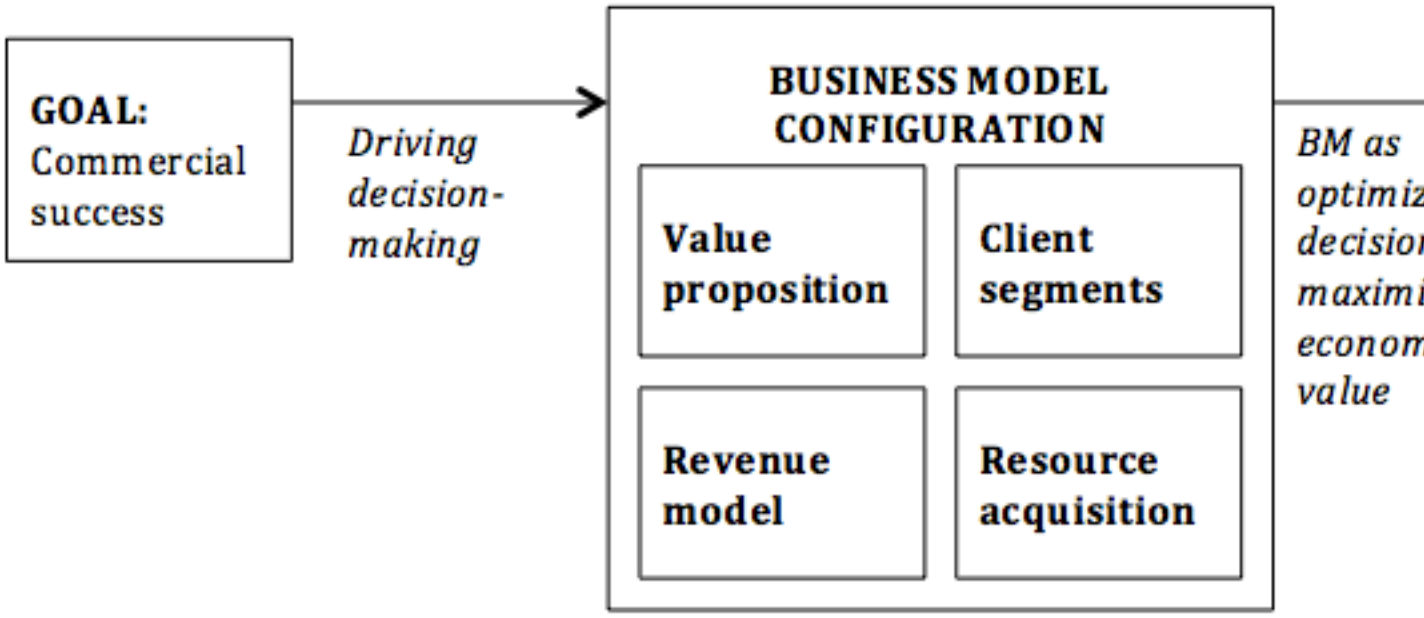



Figure 4.1: Business modelling for profit maximization.

(#fig:fig2.1)

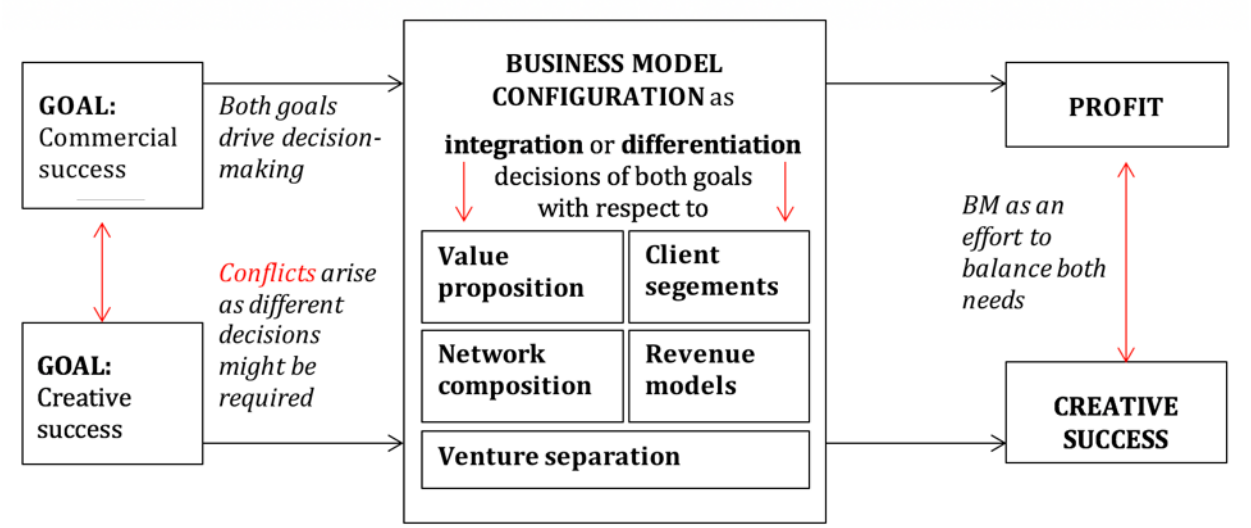



Figure 4.2: Business modelling for conflicting goals.

(#fig:fig2.2)

According to paradox scholars, complex strategic demands and aspirations require designing "complex business models" that would be able to accommodate the conficiting demands (Smith et al., 2013). The business model literature holds no immediate answers explaining the workings of such complex business models. To build the conceptual framwork, we levarage three key insights from paradox theory.

First, not all strategic conflicts can be framed in terms of choice. In line with the literature on pluralism, since all conflicting objectives are legitimate, a choice cannot be made. Instead, firms have to adopt what is referred to as the both/and approach to managing (Smith, 2014). It opposes the more traditional contingency approaches and trade-off thinking, which imply that strategic conflicts can only be resolved by a choice. "The core premise is not problem solving through fit, but coexistence"(Lewis and Smith, 2014, p. 3). According to the both/and perspective, success of firms that face strategic paradoxes will depend on their ability to accept the paradoxical nature of their objectives and learning how to cope with them. As paradoxes are not only conflicting, but also interdependent and persistent over time, making choice in favor of one objective, would never solve the situation, as the neglected objective one will resurface eventually. This means that instead of solving situations, paradoxes have to be managed (Smith, 2011).

Second, managing paradoxes implies that with respect to goals and performance evaluation they are enacting a balancing act - attempting to balance the performance in paradoxical domains over time. According to our qualitative interviews, in practice this usually manifests as requirement that the performance in all relevant domains over time is 1) above the "break-even" point, and 2) equally well attained. The operationalization of performance balance is further discussed in the methods section.

Third, paradox theory offers meta-thoeretical models explaining the ways managers apply considerations about conflicting goals in their decision-making. According to most paradox research (Smith and Lewis, 2011), there are the two generic approaches a firm can adapt in its decisions, structures, and contexts in order to cope with paradoxes - integration and separation (or differentiation). Differentiation approach to paradox management prescribes dealing with tensions through segmentation and/or source splitting, e.g. establishing separate units, teams, even ventures, leadership structures, processes, segmenting and shifting between activities over time (Poole and Van de Ven, 1989; Fairhurst et al., 2016). Integration approach implies searching for compromise in terms of middle-way or solutions that embrace both poles (Fairhurst et al., 2016), e.g. hiring all-around employees that adhere to both visions (O'Reilly and Tushman, 2013), or building common organizational value system through communication of strategic goals (Kolsteeg, 2014).

When synthesizing these insights conceptually, the process of business model design changes from that presented in the Figure 1 to a more complex one, presented in Figure 2. Visually, the only difference between business modelling for profit-maximization and for strategic paradoxes is the addition of an extra goal dimension, and, consequently, an extra performance dimension. However, the fact that more than one goals is driving decision-making and potentially even creating conflicts changes as seemingly incompatible decisions might be made, changes the very nature of the business modelling process. While in the first case business model design can be viewed as a process of optimizing, in the second it resembles for a process of compromising and balancing. The goals are expected to be directly reflected in the business model decisions, and they can either accommodate both goals simultaneously (integrate) or separately (differentiate). This would not be the case, in case there would be only one goal.

## 4.3 The analytical model and hypotheses

As already highlighted in the introduction, there is evidence in prior literature that firms use the integration and separation strategies with respect to the decisions that compose their business models. The studies are slightly "hidden" in that they usually lack one of the theoretical components of our study - either they rely on paradox theory and only implicitly discuss some aspects of business modelling (e.g. Andriopoulos and Lowe, 2000; DeFillippi, 2015, 2009), or they study business models in the light of similar questions as discussed in the paradox literature, without using the paradox theory to explain them (Markides and Charitou, 2004; Markides, 2013; Yunus et al., 2010). In order to build our framework, we searched literature for evidence of firms using integration / differentiation strategies in the general domains of business models outlined previously - content of value proposition, clients and markets, resource organization (aka value creation) and revenue model. Some insights on how this takes place also came from our interviews. This process leads us to select five most common strategies that we will use in our analysis.

### 4.3.1 Venture separation

Structural separation is probably the most commonly explored strategy for dealing with strategic paradoxes, particularly widely discussed in the ambidexterity literature, where the authors have suggested to create separate units or even ventures for pursuing innovation activities, such as R&D, as opposed to exploitation activities (O'Reilly and Tushmann, 2004). In the creative industries literature, DeFillippi (2015) highlighted the practice of media businesses having "created a diverse set of production studios, some of which specialize in more innovative, idiosyncratic projects for which there is a less clear link to established franchises, IP and their associated user groups whereas other studios focus on more mass market franchises that exploit existing IP." (p.17)

In the business model literature, this issue has been addressed under the discussion of whether business models that are designed for different competitive strategies can be accommodate in a single firm or not. According, to Markides and Charitou (2004), "separation is the preferred strategy when the new market is not only strategically different from the existing business but also when the two markets face serious tradeoffs and conflicts." (p.24) The authors further argue that in cases where strategic intents and markets are similar, the existing infrastructure and the business model of the focal firm is enough. Since, in the case of paradoxical strategies, there is a conflict, we could expect that firms who have spun off either commercial or creative activities in other affiliated ventures will be able to score high on both performance dimensions. Accordingly, if they have not done so, they will require implementing other strategies in their business models that allow them to cope with the strategic paradox.

*Hypothesis 1a:* The application of paradoxical venture separation is an individually sufficient condition for high creative and commercial performance.
*Hypothesis 1b:* The absence of paradoxical venture separation will require other paradox management strategies to be implemented at the business model of the focal firm (INUS condition).

### 4.3.2 Portfolio diversification

Internal to firm, one of the main business model choices for firms is that of their value offering - the portfolio of services and/or products that they provide. Prior research in ambidexterity (Andriopoulos and Lewis, 2009; ) and creative industries (Bettiol et al., 2012; DeFillippi, 2015) has shown that diversifying the portfolio to include offering that tackle the different strategic intents separately can help to effectively target conflicting performance objectives. Earlier research in innovation management (Wheelwright and Clark, 1992) has similarly suggested "aggregate project plans" that would include both profitable and high-risk projects. Moreover, not only has research found evidence to diversification in terms of horizontal offering, but also adding extra value chain activities to address different needs (Winterhalter et al., 2016). ###Client segmentation
According to Teece (2010), all business model design starts by selecting clients. Even in enterprises that have single strategic intents dual client segments are not uncommon, especially in platform models where one user group gets a service for free, while another segment pays for the access to this user base (Osterwalder and Pigneur, 2010). In the context of ambidexterity of knowledge intensive firms, Bednarek et al. (2016) demonstrated that client segmentation allows to tackle both exploration and exploitation over time through acquiring different knowledge in different client relationships. Similarly, Andripolous (2003) found evidence that managers in NPD design firms switch between different types of clients that are either commercially, or creatively interesting.

### 4.3.3 Network differentiation

Another way of attending to dual goals in the business model is through acquiring resources for the different strategic intents through separate networks. Yunus et al. (2010) illustrated this strategy in the case of business modelling for social enterprises. The authors argued that in order to build both social and commercial value, it is vital to attract complementary partners that have the skills and now-how not readily available to the firm. Baden-Fuller and Haefliger (2013) have discussed this in more theoretical terms, suggesting that two-sidedness at the value offering of business models also requires two-sided value chains and networks.

### 4.3.4 Dual revenue models

Finally, benefits of separation have also been underlined with respect to revenue models, where different types of monetization would be applied for groups providing different value for the firm. For instance, the one-for-one revenue model of social enterprises like TOMS has showed how different intentions can be reach through different payment (or free) versions for different groups that cross-subsidize each other (Marquis and Park, 2014). In more traditional profit settings, Andriopoulos and Lewis (2009) exemplified how firms would do own investments in more innovative projects, while stick to classic budgeting practices for the more commercial ones.

### 4.3.5 Balancing the balancing act

Since the conceptual framework has not been previously tested, it is impossible to formulate precise configurational hypotheses about the relationship between different variables in our model. While most of the business model research would suggest that the last four differentiation strategies outlined before would have to be all implemented in the same time, thus creating two-sided business models (Baden-Fuller and Haefliger, 2013), literature also argues that the multi-sidedness throughout the business model is very complex to implement successfully (Permentier and Gandia, 2017). In accordance with this conclusion, more recent studies in paradox research suggest that it not enough to apply only differentiation strategies (Smith, 2014). Paradoxically, in order to balance conflicting strategic intents, both integration and differentiation are needed. Differentiating allows understanding the individual contributions and demands of each strategic goal, while integrating motivates finding ways to link the two. If both are not used, one of the functions is

missing and the firms fail to continuously commit to both poles.
While we did not find much discussions on integration strategies applied at the business model level, hence also they are absent from our model, we can expect that the absence of the implementation of a differentiation strategy means that the firm is at least to some extent trying to integrate both conflicting goals in its decision-making about business models. Combining these insights, we can formulate the following general hypotheses:

*Hypothesis 2a:* Balanced performance patterns will be result from business model designs that rely on a mix of both presence and absence of differentiation strategies. *Hypothesis 2b:* Unbalanced performance patterns will result from business model designs that only rely on presence or absence of differentiation strategies.

Finally, given the interdependent nature of business modelling decision, we also expect that no single variable, except for venture separation, is individually necessary and or sufficient for reaching high performance in both domains. This means that we expect all configurations to consist of at least two conditions. This property of variables only jointly forming sufficient configurations is referred to INUS nature of a condition (variable) in QCA - insufficient but nonredundant parts of different configurations, which are themselves unnecessary but sufficient for the occurrence of the outcome (Fiss et al., 2013). Hence, we propose that:

*Hypothesis 3:* Portfolio diversification, client segmentation, network differentiation, and dual revenue models are INUS conditions for achieving high creative and commercial performance simultaneously.

## 4.4 Methods and data

As mentioned in the introduction, this study takes a configurational perspective to organizational success. In order to reach our research objective, we carried out a particular form of configurational analyses - the fuzzy set Qualitative Comparative Analysis (fsQCA). We investigated how five business model design choices described in the analytical model of the previous section - portfolio diversification, client segmentation, differentiated network organization, revenue model diversification, and differentiation through venture creation - interact to lead to (mis) balance between financial and creative returns. In our research design and analysis, we followed the work of Fiss (2011; 2007), Ragin (2009), Schenider and Wagemann (2012), and Schneider and Rohlfing (2013).

### 4.4.1 QCA and its suitability for the study of business models and paradox management

Configurational perspective is based on the assumption that "cases under study [are] constellations of interconnected elements" (Misangyi et al., 2017, p. 256). QCA belongs to a family of comparative configurational methods (CCM) that allows for a systematical analysis of comparable cases to identify causally relevant structural conditions (variables) that lead to an identified outcome (Marx et al., 2013; Thiem et al., 2015). As such, QCA is a case-oriented, as opposed to variable-oriented methods (Marx et al., 2013). It is equally a set-theoretic method, employing a causes-to-effects approach to examine combinations of causal conditions instead of the more traditional search for linear causation (Mahoney and Goertz, 2006).

QCA thus assists in answering questions that imply configurations, e.g. what factors (X, Z, etc.) combine to cause an outcome (Y)? More precisely it looks at what conditions or combinations of conditions are necessary and/or sufficient for an outcome to occur. Necessary conditions are present whenever we observe an outcome. Sufficient conditions are conditions that display the presence of an outcome whenever the conditions are present. As all configurational methods, also QCA is based on three main assumptions: 1) relationships to outcomes are nonlinear and asymmetric; 2) variables that are causally related in one configuration are not necessarily related in others, implying complex causality; and 3) configurations can be equifinal (Fiss, 2011, 2007).

When applying QCA in organization studies, variables (also referred to as conditions) are defined in terms of sets of organizational attributes. The choice of conditions can be both theoretical and empirical, namely,

based on the knowledge of cases and the setting (Schneider and Rohlfing, 2013). A set can be a single condition or a combination of conditions. Each case (firm's response, in our case) is expressed in terms of its membership to the defined sets. For this study, we have chosen to carry out a fuzzy set QCA (fsQCA). In fsQCA cases are not only expressed in their full membership to the sets (1 is in, 0 is out), but also partial memberships can be assigned (partially in, partially out). The process of transforming gathered raw data about cases into membership scores is called calibration (Thiem and Dusa, 2013). It prescribes the definition of three qualitative thresholds: full membership, the cross-over point, and full non-membership. The crossover point, contrary to most accepted measurement scales, establishes a difference in kind, not degree. It is the score that indicates maximum ambiguity, that is, a firm has a degree of membership of 0.5 and also a degree of non-membership of 0.5 ini the given set. (Jacobs, 2018).

When the data is calibrated into sets, QCA then relies on Boolean algebra to perform systematic cross-case analysis, and using reduction shows combinations that are necessary and or sufficient for the occurrence of an outcome (Rihoux & Ragin, 2009). Finally, QCA as an approach (rather than only an analytical method) requires the results to be verified by case knowledge and by counterfactual analysis making it explicit what assumptions have been made about logical remainders (i.e. configurations that were not observed, yet are analytically possible) (Schneider and Rohlfing, 2013).

The two following observations led to concluding that configurational approach is the most appropriate for our analytical framework: 1) The conceptualization of business models as a set of decision variables makes it a naturally configurational concept; 2) Both paradox theory and business model perspective oppose the contingency theory assumptions, i.e. "if-then" and "net-effects", and instead look at the interaction between structures and practices and assume equifinality - idea that multiple configurations can have similar outcomes (Fiss et al., 2013; Nenonen and Storbacka, 2010; Lewis and Smith, 2014; T??uscher, 2017).

Despite the apparent fit, not much configurational work exists in both areas. Even less so when it comes to linking the two streams. In paradox scholarship, the idea that organizations need both integrating and separating strategies is rather new, therefore not much research beyond theory building exists. In the case of business models, there has been a lack of methods that can empirically do justice to the complexity and configrutional nature of the concept. The lack of appropriate analytical tools has been a general problem of naturally configurational concepts. However, as argued by Fiss (2007) and Misangyi et al. (2017), the development of methods such as QCA and NCA has given rise to neoconfigurational perspective, allowing embracing causal complexity appropriately. These developments have paved the way to some recent applications of QCA in business model literature (T??uscher, 2017; Kulins et al, 2016; Aversa et al, 2015).

### 4.4.2 Research setting and data collection

RESEARCH SETTING DESCRIPTION : creative indsutries, double-success criterion, creative service firmes etc. mostly used in paradox research, keeping business models similar but distinct.

Our analysis is based on 140 cases of Dutch creative service firms. The data for this studies was collected from two sources - interviews and a survey. The interview data allowed for a more in-depth understanding of the process of business model design, and paved the way to further develop the survey measures for the follow-up study. Table 1 shows the data sources. Measures are described in detail in the next section.

Table 4.1: Data sources.

| Data source | Purpose / description |
|---|---|
| Interviews (n=16) | Development of the conceptual framework; Validating survey measures; Data for post-QCA analysis; |
| Expert interviews (n=4) | Developing and validating survey measures; Discussing the validity of interview findings |
| Survey responses (n=140) | Data for the QCA analysis; Data for the post-QCA analysis; |
| Secondary data | Additional data from websited, reports, field noted from events etc. |

The interview sample was targeted with diversity as the main criteria. In order to evaluate the sustainability of their performance, the firms were at least 5 years old and with a minimum of 5 full time employees. The first cases were gathered in the various subsectors of design and then further extended to other creative services, e.g. advertisement agencies, interactive and digital design consultancies. The semi-structured interviews with the founders or managers of the selected firms were conducted in 2015 and 2016, and lasted between 60 and 180 minutes. The interview guide was developed based on a prior literature review on business models, paradox management and the management characteristics of creative services firms. These interviews were transcribed, coded and analyzed using RQDA package in R. They were complemented with secondary data from websites, notes from various events where firms participated and reports. An overview of interview cases is provided in Appendix A.

The interview data was used to develop measures for paradox management that could be used in survey research. It was distributed between June 2017 and March 2018. The survey was sent out to an initial sample of 125 members of Dutch Designers' Association (n=25), and a follow up sample of a self-gathered data base of 6000 enterprises that according to the Dutch Chamber of Commerce have registered their activity as belonging to the creative service firms (n=115).

Table 2: Sample description.

### 4.4.3 Measures and calibration

In order to convert our qualitative insights into conditions and cases suitable for a QCA, we followed the suggestions of Basurto and Speer (2012) on designing measures and calibration from interview data into sets. We first searched for specific first order themes (observable measures) operationalizing our analytical framework. We derived three types of qualitative observable measures - 1) business model measures, 2) performance measures, 3) and measures that would classify business model design choices in the two paradox management approaches of integration and differentiation (separation). Appendix B shows the qualitative measures. These were further used to aggregate the qualitative measures into survey questions.

All the measures for conditions used in this study (Table 4.2) were single-item, measured on a 7-point Likert scale, asking the respondents to indicate the extent to which the statements are true about their business. In order to calibrate the data into sets, we used direct calibration setting 4 as the first inclusion score in the set "differentiation". The non-membership would mean that the firms use an integration strategy with respect to the particular decision.

Table 4.2: Set-membership measures from surveys.

| Condition | Survey measures |
|---|---|
| VPCH (Value proposition differentiation) | Composite measure: Value proposition diversity AND Paradoxical differentiation of value proposition. |
| Some types of our services and products help reaching our financial and business goals, while others contribute to our creative goals. The average score of the importance of each type of value proposition along the value chain for the business model (4 indicators - The higher the more diversified). | |
| SEGM (Approach to client segmentation) | Some client segments are commercial and bring in money, while others secure creative work, reputation and exposure. |
| RESDIF (Network differentiation) | We make a clear distinction between creative and business partners. |
| REVDIF (Diversification of payment systems) | Different revenue models and conditions are used for commercial projects and the projects we perceive as creative and/or challenging. |

| Condition | Survey measures |
|---|---|
| SPINDIF (Venture separation)<br><br>The other venture(s) connected to our firm focus(es) on the more commercial and/or entrepreneurial work. | Composite measure (creative OR commercial affiliate venture).<br><br>The other venture(s) connected to our firm focus(es) on the more creative projects, as opposed to the commercial and entrepreneurial work. |

Creative and business performance were measured using previously validated multi-item scales (Appendix C). The means of each performance dimension were calibrated using the direct method and 4.01 as the inclusion score. These were then transformed into four composite conditions:
- BAL: high creative performance AND high business performance;
- NOBP: high creative performance AND low business performance;
- NOCP: low creative performance AND high business performance;
- BOTHLOW: low creative performance AND low business performance;

### 4.4.4 Fuzzy-set Qualitative Comparative Analysis

### 4.4.5 Post-QCA Process-tracing

## 4.5 Results and discussion

| Configuration | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Value chain integration | | | ⊗ | ⊗ | ● | ● |
| Client segmentation | | ⊗ | ● | | ⊗ | ● |
| Network differentiation | | | ● | ⊗ | ● | ⊗ |
| Multi-sided rev. models | | ● | | ⊗ | | |
| Venture separation | ⊗ | | | | | |
| Consistency | 0.509 | 0.821 | 0.845 | 0.800 | 0.893 | 0.805 |
| Raw coverage | 0.814 | 0.420 | 0.427 | 0.461 | 0.311 | 0.454 |
| Unique coverage | 0.150 | 0.024 | 0.024 | 0.018 | 0.010 | 0.024 |
| Solution consistency | 0.531 | | | | | |
| Solution coverage | 0.977 | | | | | |
| Solution PRI | 0.236 | | | | | |
| Nr. cases | 41 | | | | | |

● Core Present Condition ⊗ Core Absent Condition
● Peripheral Present Condition ⊗ Peripheral Absent Condition

Figure 4.3: Example of result table that will be produced.
(#fig:fig2.3)

# Chapter 5

# ORGANIZATIONAL COMMITMENTS TO CONFLICTING LOGICS, BUSINESS MODEL HETEROGENEITY, AND PERFORMANCE:

### A CONFIGURATIONAL PERSPECTIVE

**Abstract.** I don't have an abstract yet.

## 5.1 Introduction

An increasing number of firms face a reality of competing demands and interests that influence their way of strategizing and organizing, and ultimately compromise their ability to sustain the organization in the long-run (Jarzabkowsi & Fenton, 2006). The need of organizations to accommodate competing, often even conflicting considerations has been discussed in several literatures on topics such as triple bottom-line (Dixon & Clifford, 2007), hybrid organizations (Grassl, 2012), organizational identity (Voss et al., 2006), paradox theory (Fairhurst et al., 2016), institutional logics (Besharov et al., 2014), and pluralism (Jarzabkowski et al., 2013). The common examples of other demands alongside profit-making include social (Smith et al., 2013) and environmental missions (Dixon and Clifford, 2007), corporate social responsibility (Wong and Dhanesh, 2017), multiple stakeholder satisfaction (Jarzabkowski et al., 2013), or creative performance, as in the case of the research setting of this study - the creative service firms (Jacobs, 2013). While a lot has been done in order to understand the emergence, responses, and mechansism of accommodation of organizational pluralism, we know less about the opportunities for strategic differentiation that it creates (Greenwood et al., 2011; Ocasio & Radoynovska, 2016).

In this paper, we rely on the conceptual model developed my Ocasio and Radoynovska (2016) published in Strategic Organization, where they focus particularly on the link between commitments to conflicting logics and business models, addressing one of the key questions in strategic management - heterogeneity in value creation and capture among firms. The authors discuss "how organizational choices in business models and governance strategies are shaped by field-level pluralism and experiences of complexity." (p.293) According

to them, while most of literature considers business models to be solely driven by market considerations, the presence of other demands also influences the business model choices firms make. Since managers experience pluralism and respond to it differently, by doing so they create organizational heterogeneity and possibilities for strategic differentiation. We further draw on business model literature to expand the model, by explaining how different business models, in turn, can lead to different performance outcomes. The conceptual model is tested using survey data of 179 Dutch creative service firms (design agencies, advertisement agencies, audiovisual service providers, and the like).

Commitment to different logics is measured in terms of the firm's score in creative and business orientation, derived using Confirmatory Factor Analysis. In order to uncover business model heterogeneity, we use Principal Component Analysis. The firms' scores on orientations, as well as their membership in (the use of) certain business models is calibrated into fuzzy sets. Using fuzzy set Qualitative Comparative Analysis, we explore which configurations of firm orientations and business models lead to superior performance in two domains that correspond to the conflicting logics, and which, on the contrary, are necessary and/or sufficient for below average firm performance. We look at both creative and business performance. The rest of the paper is structured as follows: we first build the conceptual framework combining the literature on pluralism, institutional complexity and business models. We then formulate hypotheses based on a discussion on strategic conflicts in the creative industries. Further on, we explain our methods, to then proceed to presenting and discussing our results.

## 5.2 Literature review

In this section, we synthesize diverse strands of literature to argue why business model heterogeneity in pluralistic settings can be seen as a function of top-manager commitments to the conflicting requirements they are exposed to, and how this heterogeneity can explain performance differentials. We first discuss particularities of success criteria in pluralistic contexts. Then, we conceptualize how differences in commitments to different logics lead to differences in strategic decisions, including decisions about the firm's business model. We then link back the business model heterogeneity to organizational success. Finally, hypotheses are formulated, based on a review of peculiarities of the creative service setting that we study.

### 5.2.1 Strategic pluralism and decision-making

The concept or organizational pluralism is used to describe contexts that are characterized by "multiple objectives, diffuse power and knowledge-based work processes" (Denis et al., 2007, p. 180). Pluralism arises as a result of "the divergent goals and interests of different groups, each of which have sufficient power bases to ensure that their goals are legitimate to the strategy of the organization" (Jarzabkowski & Fenton, 2006, p. 631). Pluralism can find its source both within and outside the organization. In hybrid organizations, such as hospitals or universities, competing demands are created by the need to satisfy different stakeholder groups like funding bodies, regulatory institutions, and different client groups (Denis et al., 2007). In the case of professional service firms (also characteristic to our research setting), the need to retain highly skilled employees often requires managers to act against the market interests, as the profitable work is not always the most interesting one, but the skilled professionals need to be challenged enough to be motivated to perform well (Teece, 2003).

The long-term success and competitive advantage of firms facing conflicting demands depend heavily on their ability to strike a balance in these different domains (Smith, 2014). The pluralism in organizational priorities thus plays an important role in organizing. Most of the literature refers to the pluralism as a property that is pertinent to the higher strategic level of the firm, because it creates tensions concerning the identity and interests of the firm and hence imply divergent strategizing demands. Yet the decisions at the organizational level of the firm are where the pluralism is enacted (Denis et al., 2007; Jarzabowski & Fenton, 2006). According to scholars of pluralism and institutional logics, managers experience pluralism and respond to it differently, and by doing so they create organizational heterogeneity and possibilities for strategic differentiation (Ocasio & Radoynovska, 2016).

### 5.2.2 Business model heterogeneity and organizational success in pluralistic settings

When it comes to strategic differentiation, the topic of business models has become a particularly important one in the last two decades, describing the main mechanisms of value creation and capture of a firm (Osterwalder & Pigneur, 2010). Choosing the right business model has become a crucial source of competitive advantage (Afuah, 2004; Zott and Amit, 2007). According to the business model perspective, firms outperform each other by converting their strategic goals (Smith et al., 2010) into better-performing configurations of decisions about value propositions, target markets, value creation mechanisms and revenue models (Baden-Fuller and Mangematin, 2013; Osterwalder and Pigneur, 2010) than those of their competitors. Nevertheless, the literature has so far been very much focused on the economic value creation (Massa et al. 2017). As put by Ocasio and Radoynovska (2016), "while economic perspectives implicitly argue that business models are driven by market logics (Teece, 2010), combinations of other logics such as family, professional, and community may also shape the organization's business model." (p. 292)

The link between business models and different strategic goals has been so far mostly discussed conceptually. One the one hand, authors have argued that strategic complexity and pluralism require such business model that would enable simultaneous agendas to thrive (Smith et al., 2010). The question is then what business model choices allow to incorporate pluralism in the business model design (Yunus et al., 2010; Laasch, 2018)? On the other hand, scholars have also explored the opposite link, namely, that pluralism is the reason why business models among firms differ and can thus be a positive source of heterogeneity that would allow firms to strategically differentiate themselves through creating competitively superior business models. According to Ocasio and Radoynovska (2016), "the greater the degree of field-level pluralism, the greater the heterogeneity in organizational commitments to a subset of logics informing their business models." (p.293) More specifically, we build our empirical framework on the following conclusion of the authors: "The complexity of business models - with variations in customer and stakeholder relations, value propositions, activities, and resources shaping organizational commitments - also imply increasing fragmentation in competition within institutional fields. Heterogeneity in business models leads the heterogeneity in sources of value creation across organizations." (p.294).

Altogether, we expect that a combination of various degrees of commitments to conflicting logics present in a field and different choices of business models will lead to different performance outcomes.

### 5.2.3 Conflicts and success criteria in the creative service firms

The research setting of this study - the creative industries firms (Caves, 2000) - have a long-lasting tradition of framing the internal and external conflicts between creative and commercial goals as a trade-off, borrowing it from the arts' world. Yet, creative industries scholars increasingly agree that a clear choice between pursuing creative and commercial activities in the sector is untenable, as it ignores the realities of the most part of creative and cultural production, which actually takes place somewhere in between the two domains (Hesmondhalgh, 2006; O'Connor, 2010). This is especially the case in for-profit creative industries, including creative service firms, where the success depends on being good at both creation and commercialization simultaneously (Jacobs, 2012). It would therefore be more realistic to view both creative and business aspects of creative entrepreneurship as necessary (Ilozor et al., 2006). While pursuing creative and commercial ends simultaneously creates certain tensions, the need to incorporate both considerations in the decision-making can be better framed as an organizational feature that cannot be changed and has to be accepted and managed (DeFillippi, 2015; Lampel et al., 2000; Townley et al., 2009).

Despite the acceptance of the fact that both logics are important, the commitments to both are not always equally valued and observed in both theory and practice. At the industry level, theories divide markets into mass (commercial) and niche (artistic) and argue that different kinds of creative production take place in each (Bourdieu and Johnson, 1993). Consequently, similarly to the work developed on the generic strategies of competitive advantage (Porter, 1985), where firms are thought to compete based on either quality or cost efficiency, it is suggested that creative firms should choose between a commercial or creative-artistic strategy,

depending on the markets the want to target (Canavan et al., 2013). At the organizational level, unresolvable conflicts are seen at the level or resource requirements. Creativity requires flexibility, spontaneity, and time, whereas successful commercialization demands control, planning, and efficiency (Eikhof and Haunschild, 2006; Scase and Davis, 2000). This forces to frame resources in terms of creative and non-creative (Caves, 2000). At the decision-making level, creative firms have been found to consistently prioritize professional standards and creative aspirations over monetary value (Bos-de Vos et al., 2016; Jacobs, 2012), and often struggle with finding a viable business model (We can thus conclude that not all firms are expected to commit to each of the logics in the same way. Based on this premise, we can formulate the following hypotheses:

*Hypothesis 1:* Different commitments to creative and business logics lead to the implementation of different business models.

*Hypothesis 2:* Different configurations of commitment to creative and business logics and business models are sufficient and or necessary for different types of performance.

## 5.3 Methods

In order to investigate how commitments to conflicting logics and business models interact to explain performance differentials among creative service firms, we carry out a fuzzy set Qualitative Comparative Analysis (QCA) on the survey data of a sample of 179 Dutch enterprises. We first discuss the general motivation to study business models from a configurational perspective, as well as the premises of QCA. We then describe our sample, measures and analysis step-by-step.

### 5.3.1 A configurational approach to the study of business models

A growing body of theories and research in the field of organizational studies have tried to depart from previous approaches to studying organizations in terms of bivariate correlations or constrained multivariate relations and suggested that organizations can be best understood as configurations (Snow et al., 2005). Despite the considerable amount of literature emphasizing holistic, interrelated and configurational nature of business models, it is surprising that there have been only few attempts to apply the conclusions and analytical tools developed in the field of configurational approach to the study of business models. Yet it can be argued that both fields can benefit from each other to address their shortcomings (Tauscher, 2017).

According to Short, Payne and Ketchen (2008), firms are better described and understood in terms of resemblance along pre-defined important dimensions that group them in distinct and consistent sets, rather than simply looking at relationships that hold true across all organizations (Short et al., 2008; Ketchen et al., 1993). This assumption is also the main strength of the approach as it aims to explain and predict organizational success and failure by looking at how firms as configurations perform. The configurational approach relies on the idea that depending on how patterns or attributes are configured, they will lead to different outcomes. This entails causal complexity, equifinality and the belief that the relationships between components are non-linear and not necessarily symmetric (Fiss, 2007).

Snow et al. (2005) summarize the application of configurational framework to organization design as follows: 1) it falls under the paradigm of congruence, 2) "organization is conceptualized as a system or configuration whose major components include strategy, people, structure and management processes", 3) performance depends on internal fit between components and external fit with environment, and 4) there is no perfect organization, all configurations have strengths and weaknesses. (p.434).

Configurational approach has been empirically proven in other contexts as a superior alternative for understanding performance differentials. For instance, Stabell and Fjeldstad (1998) proposed a typology using configurational approach trying to explain different forms of value creation that further would help to understand competitive advantage. Stavrou and Brewster (2005) discovered strategic human resource management bundles and were able to link them to business performance. Nevertheless, despite the empirical advances, Snow et al. (2005) conclude that up no concepts have been developed that would be holistic enough to live

up to the expectation promised by the approach. In this respect, business model concept can be seen as a promising one, for it unites components of all major decision-making groups mentioned by authors and matches the theoretic assumptions that underlie the configurational approach.

For the business model research, configurational approach in return can help to address the lack of tools to deal with the inherently complex, non-linear and equifinal relationship that exists between the elements of each business model but has not been empirically tackled (Campagnolo & Cenedese, 2013; Tauscher, 2017). It is often argued that research is rarely accretive and has too little empirical studies; therefore, the exact mechanisms underlying the high-performing configurations have not been properly explained (Aversa et al., 2015). Studies using configurational approach have developed a set of methodic and analytic tools that facilitate its empirical application. In this respect, QCA has been repeatedly highlighted as a very promising method for organizational configurations (Campagnolo & Cenedese, 2013; Fiss, 2011; Tauscher, 2017). These tools, as well as research designs used in extant empirical studies on configuration have the potential to considerably advance empirics in the field of business models and have already paved the way to some recent successful applications of QCA in business model literature (T??uscher, 2017; Kulins et al, 2016; Aversa et al, 2015).

### 5.3.2 Qualitative Comparative Analysis

QCA belongs to a family of comparative configurational methods (CCM) that allows for a systematical analysis of comparable cases to identify causally relevant structural conditions (variables) that lead to an identified outcome (Marx et al., 2013; Thiem et al., 2015). As such, QCA is a case-oriented, as opposed to variable-oriented methods (Marx et al., 2013). It is equally a set-theoretic method, employing a causes-to-effects approach to examine combinations of causal conditions instead of the more traditional search for linear causation (Mahoney and Goertz, 2006).

QCA thus assists in answering questions that imply configurations, e.g. what factors (X, Z, etc.) combine to cause an outcome (Y)? More precisely it looks at what conditions or combinations of conditions are necessary and/or sufficient for an outcome to occur. Necessary conditions are present whenever we observe an outcome. Sufficient conditions are conditions that display the presence of an outcome whenever the conditions are present. As all configurational methods, also QCA is based on three main assumptions: 1) relationships to outcomes are nonlinear and asymmetric; 2) variables that are causally related in one configuration are not necessarily related in others, implying complex causality; and 3) configurations can be equifinal (Fiss, 2011; 2007).

When applying QCA in organization studies, variables (also referred to as conditions) are defined in terms of sets of organizational attributes. The choice of conditions can be both theoretical and empirical, namely, based on the knowledge of cases and the setting (Schneider and Rohlfing, 2013). A set can be a single condition or a combination of conditions. Each case (firm's response, in our case) is expressed in terms of its membership to the defined sets. For this study, we have chosen to carry out a fuzzy set QCA (fsQCA). In fsQCA cases are not only expressed in their full membership to the sets (1 is in, 0 is out), but also partial memberships can be assigned (partially in, partially out). The process of transforming gathered raw data about cases into membership scores is called calibration (Thiem and Dusa, 2013). It prescribes the definition of three qualitative thresholds: full membership, the cross-over point, and full non-membership. The crossover point, contrary to most accepted measurement scales, establishes a difference in kind, not degree.

When the data is calibrated into sets, QCA then relies on Boolean algebra to perform systematic cross-case analysis, and using reduction shows combinations that are necessary and or sufficient for the occurrence of an outcome (Rihoux & Ragin, 2009). Finally, QCA as an approach (rather than only an analytical method) requires the results to be verified by case knowledge and by counterfactual analysis making it explicit what assumptions have been made about logical remainders (i.e. configurations that were not observed, yet are analytically possible) (Schneider and Rohlfing, 2013).

### 5.3.3 Data and research setting

In order to gather the data for our study, we conducting a survey among Dutch creative service firms. We chose to focus on creative service firms as a subsector of creative industries for two reasons. Firstly, we wanted to minimize the differences in the variety of external institutional logics and internal drivers the firms could commit to, while still retaining a sample large enough that would span a single sector. Secondly, the choice was made to focus on firms that have a dominant logic in terms of types of goods they produce (in this case, the service logic), so that the business model heterogeneity can be more precisely assessed.

According to Dutch policy documents and industry reports, creative service firms constitute a separate subset of creative industries and refer to firms that carry out the following activities - architecture, interior architecture, communication and graphic design, industrial and product design, spatial design, PR agencies, and advertisement agencies.

In order to collect the data, we first approached six professional associations - The Association of Dutch Designers (BNO), The Association of Dutch Architects (BNA), The Association of Dutch Interior Architects (BNI), Dutch Digital Agencies (DDA), The Dutch Game Association (DGA), The Association of Communication (VEA), and asked them to distribute the survey to their members via newsletter and direct emailing, if possible. During the second stage, we obtained a list of enterprises matching the defined sectors of activities from the Dutch Chamber of Commerce and approached them inviting to fill in the survey. In order to avoid common method bias, we asked only the founders/ senior managers of the organizations to fill in the survey. As an incentive to respond, the firms were assured of anonymous and offered a personalized report of the results. The total population of firms according approached was approximately 5000. After omitting the incomplete surveys or responses that did not match the criteria, 179 questionnaires were retained, yielding a response rate of 3,6%.

### 5.3.4 Survey measures

Where possible, we used scaled developed and validate in prior studies. In the cases, where changes, new items, or construct measurements where needed we relied on the general steps suggested for developing measurements in various fields of social sciences (Churchill, 1979; Gerbing & Anderson, 1988; Viswanathan, 2010; MacKenzie et al., 2011). We explain this further for each concept separately.

In order to test the validity of the survey, the first versions were extensively discussed with four management scholars and three industry experts. After initial adjustments in items, the questionnaire was presented to two founders of creative service firms asking them to think aloud when filling it in. This led to minor adjustments of wording and to changes in the order of presenting the questions to the respondents. It was then checked again with two scholars and one industry expert. The survey was then pre-tested on founders/managers of 25 firms, using a convenience sample of firms that had taken part of previous qualitative phase.

#### 5.3.4.1 Commitments to conflicting logics (orientations)

In order to measure top-management commitment to strategic paradoxes and logics that they are exposed to, we used the organizational identity scale developed by Voss, Cable and Voss (2006). The scales investigate five values - artistic, achievement, prosocial, customer and financial. We made small modifications in the wording of the items to match the for-profit setting, since the original scales were developed for the non-profit artistic sector. The artistic value dimension was renamed as creative value dimension and an additional dimension of entrepreneurial values adapted from Srivastava, Yoo, Frankwick and Voss (2013) was added. All constructs were measured using a 7-point Likert scale, inviting the respondents to indicate how important the statements are to their firm's identity. The original study treats them as separate constructs, so we first run a Confirmatory Factor Analysis (CFA) specifying a model with 6 different logics that firms can commit to. However, there were several issues. Firstly, the responses on items of the market values scale were highly skewed towards 7, with only 4 respondents answering lower than 6. We removed those items. Secondly, the items of creative, achievement, and social values were highly correlated. Thirdly, the entrepreneurial values

scale had very low factor loadings. Therefore, we aggregated the first three concepts under the concept of "Creative Orientation" and retained only the financial values under the concept of "Business Orientation". We specified another model for CFA, and only retained the items with satisfactory loadings. The full list of the original item pool, loadings of the final scales, and various measures of fit can be found in Appendix, Table 1.

#### 5.3.4.2 Performance measures

Consistent with the two general orientations specified in our conceptual framework, we measured two types of performance - business and creative. For business performance, we adapted the professional service firm performance scale developed by Lander( 2012). We used the same example in combination with insights from Voss, Cable & Voss (2006) and our interviews to specify the items for the creative performance construct. We insured that they match the items that were defined in the orientations scales. For each item, we inquired about the respondent's level of satisfaction with firm performance relative to the firm's competitors (Covin and Slevin, 1989), measured using a 7-point Likert scale. In line with Jarvis et al. (2003), we specified a reflective construct. We run a CFA using the specified model, however from eleven creative performance items, we retained only four, and three from the twelve business performance items with satisfactory loadings. The full list of the original item pool, loadings of the final scales, and various measures of fit can be found in Appendix, Table 2.

#### 5.3.4.3 Business models

When attempting to measure business models in empirical studies, two broader approaches have been identified - 1) observing the degree to which business model related decisions follow a certain pattern, e.g. strategy or design theme (e.g. Amit & Zott, 2007), and 2) treating business models as real attributes that manifest as a set of observable choices (e.g. Morris et al., 2005). We use the latter approach to operationalize the business model concept for our study. In order to develop a measurement scale that would be in line with the conceptualization in terms of "set of choices", we adapted the business model framework developed by Morris et al. (2005; 2015). This approach entails deriving taxonomies, as opposed to typologies, and has been argued to be particularly suitable in studies that aim to study business model heterogeneity in specific settings. Similar examples of setting specific operationalizations in terms of component-based choices have proven successful in previous empirical studies in other settings, e.g. in biotechnology (Bigliardi et al., 2005), in carsharing (Remane et al., 2016), in e-business models, in electrical vehicles (Kolk, 2012) and others. We were also informed by previous scale development efforts in other management fields, particularly operations management (e.g. Li et al., 2006). Likewise, the study of Clauss (2016) on developing measures for business model innovation concept was of particular assistance, as it is closely related to our topic.

Where possible, we used the measures developed by Morris et al. (2005;2015). For the constructs that were measured with items that we judged as too generic for our research purposes, we adapted the items and variables to fit the knowledge intensive (creative) service setting. The modifications were made relying on our substantial knowledge of the field based on earlier qualitative study combined with insights from industry experts and reports and other literature on service firms. The adapted measure of the construct consists of ten dimensions each having two to eight items: knowledge offering in the value proposition, value chain activities in the value proposition, types of offering (product/service), the degree of customization of the offering, differentiation strategy, client segments, resource acquisition strategy, key partners, revenue models, and income sources. All constructs were measured using a 7-point Likert scale, inviting the respondents to indicate how important the aspects are for their firm's business model.

Since we do not expect that business model elements would be correlated, we specified a formative construct (Jarvis et al., 2003). We also expected that firms could use several types of business models simultaneously (Markides & Charitou, 2004). Therefore, in order to uncover these types, we run a Principal Component Analysis that tried to find types using the 43 items we specified. The full list of the original item pool, loadings of the final scales, and various measures of fit can be found in Appendix, Table 3. Our analysis yielded six components, namely, six types of business models, that were formed by the following items:

**Type 1 : The "classic" creative service firm business model:**
- Offers mainly services, which are highly customized
- Value proposition is a combination of several creative sub-disciplines
- The firms take care of both creative concept development and production and/or implementation part of the projects
- Compete based on product/service quality
- Close customer relationships
- Revenue model based on hourly rates
- Mainly use income only from own activities

**Type 2 : The revenues diversifying business model:**
- Licenses, subscriptions, and usage fees
- Revenue generated from other affiliate firms
- Investing money in other companies
- Negative loading on own activities as income source
- Partners for scaling our business
- Maintenance and service level agreements

**Type 3 : The outsourcing-based product business model:**
- Main value chain activities are sales, marketing and distribution
- Negative loading on the strategy part of the value chain activities
- Suppliers as the most important partners
- Revenue model primarily based on product sales
- Negative loading on the use of hourly rates as a revenue model

**Type 4 : The in-house produced niche product business model:**
- Offering mainly own products
- Revenue model based primarily on product sales
- Acquiring resources in-house
- Focusing on niche markets

**Type 5 : The external investment business model:**
- Returns on external investments as main revenue model
- Significant use of loans as income source

**Type 6 : The co-creating business model:**
- Complementors as key partners
- Competitors as key partners
- Customers as co-creators
- Partners for scaling our business as key partners

Unsurprisingly, the principal component and the main business model covering the most variance in our data is the traditional business model of knowledge intensive service firms. The other components, i.e. business model types show the possibilities of business model diversification that are currently in use by the sector we study.

### 5.3.5 Fuzzy set calibration and Qualitative Comparative Analysis

Once we had validated the constructs in our survey data, we proceeded to calibrating the raw data for fuzzy set Qualitative Comparative Analysis (fsQCA). Since the original data was gathered using 7-point Likert scales, and hence can be considered as categorical, and not pure interval, we used the total fuzzy and relative method (TRF) suggested by Du??a (2018) to calibrate the data into fuzzy sets. Table 1 presents the conditions we specified.

Table 5.1: (#tab: setdefinitions) Set definitions.

| Conditions and outcome sets | The case belongs to the set, if... |
|---|---|
| Creative Orientation (CO) | scores above average high on the selected items of creative, achievement, and social values; |
| Business Orientation (BO) | scores above average high on the selected items of financial value; |
| Business Model 1 (BM1) | has a high score for the component of the traditional creative service firm business model; |
| Business Model 2 (BM2) | has a high score for the component of the revenues diversifying business model; |
| Business Model 3 (BM3) | has a high score for the component of the outsourcing-based product business model; |
| Business Model 4 (BM4) | has a high score for the component of the in-house produced niche product business model; |
| Business Model 5 (BM5) | has a high score for the component of the external investment business model; |
| Business Model 6 (BM6) | has a high score for the component of the co-creating business model; |
| High creative and business performances (BAL) | scores above average high on the selected items of creative and business performance; |
| High business, low creative performance (NOCP) | scores above average high on the selected items of business performance, low on creative performance; |
| High creative, low business performance (NOBP) | scores above average high on the selected items of creative performance, low on business performance; |
| Low creative and business performances (BOTHLOW) | scores above average low on the selected items of creative and business performance; |

After the conditions and outcome sets were calibrated we proceeded to carry out four separate QCAs using the QCA package in R to answer the following questions: - Which configurations of orientations and business models are necessary and/or sufficient for having both high creative and business performance?
- Which configurations of orientations and business models are necessary and/or sufficient for only high creative performance?
- Which configurations of orientations and business models are necessary and/or sufficient for only high business performance?
- Which configurations of orientations and business models are necessary and/or sufficient for having both low creative and business performance?

## 5.4 Results

We first run analyses of necessity for all four outcomes, testing for the necessity of both absence and presence of our conditions. However, none of the conditions or their absence was individually necessary for any of the outcomes. The results can be found in Tables 4 to 12 of the Appendix.

We then turned to the truth table minimization for testing sufficiency of (combinations of) our conditions. We present the results per each outcome. Following the guidelines of Fiss (2011) and Ragin (2008), we report both core ( for presence and for absence) and peripheral conditions ( for presence and for absence). In our case, the peripheral conditions represent the ones present in the conservative solutions, since no prior empirical, nor theoretical evidence was available to formulate directional expectations. The only exception in our results is the analysis for the presence of both high creative and business performance. After several rounds of analysis, we chose to present the conservative solution, and leave out the parsimonious one. Due to the relatively large number of conditions, and no prior theory for difficult counterfactual analysis, our parsimonious solution has a very high model ambiguity. When allowing the minimization algorithm to search

for all possible solutions, it returns 122 possible models that are causally equivalent. Therefore, in the first analysis, we focus on the conservative solution, even though the results are thus only representative of our cases.

### 5.4.1 Analysis 1: High creative, high business performance

All in all, our results confirm the expectations formulated in our hypotheses - diverse combinations of commitments to creative and business logics and business models are equally valid pathways to achieving high performance in both dimensions. There are five configurations where both commitments are present, three where only the creative orientation is present, and absence of the business orientation is an INUS condition, two configurations with the opposite commitments, one where both orientations have to be absent, and two configurations where the orientations are not even causally relevant. We also see that in absolute numbers, most firms are successful (36, configuration 1) when committing to both logics, but not experimenting with business model innovation (absence of business model conditions 3, 4, 5, and 6).

The configurations where both orientations are present (1, 5, 6, 7, 8) all exhibit a similar pattern - the combination of both orientations and use of one business model (types one to four), while the absence of other business models is sufficient in order to achieve both high creative and business performance. In the first configuration, instead of the presence of a business model, it is the absence of using Business Model 6 that jointly contributes to success.

There are two configurations where commitment to logics are causally irrelevant (2 and 3). Among these cases, the use of either revenues diversifying business model (BM2) or the in-house produced niche product business model (BM4) in combination with not implementing other business models is sufficient for high performance.

The implications of configurations 10 and 11 seem particularly challenging theoretically - when using the co-creating business model, all other business models must be absent, and only one orientation can guide firms' decisions, the other contributing in its absence. However, both are possible.

Table 5.2: (#tab: bothhigh) Conservative solution for high creative and high business performance.

| Conditions | Configurations | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| Creative Orientation | | | | | | | | | | | | | |
| Business Orientation | | | | | | | | | | | | | |
| BM1 | | | | | | | | | | | | | |
| BM2 | | | | | | | | | | | | | |
| BM3 | | | | | | | | | | | | | |
| BM4 | | | | | | | | | | | | | |
| BM5 | | | | | | | | | | | | | |
| BM6 | | | | | | | | | | | | | |
| Consistency | 0.79 | 0.77 | 0.72 | 0.84 | 0.85 | 0.83 | 0.83 | 0.81 | 0.82 | 0.82 | 0.81 | 0.85 | 0.78 |
| Raw coverage | 0.56 | 0.12 | 0.16 | 0.11 | 0.09 | 0.12 | 0.13 | 0.19 | 0.04 | 0.08 | 0.09 | 0.03 | 0.16 |
| Unique coverage | | | | | | | | | | | | | |
| | 0.20 | 0.02 | 0.01 | 0.02 | 0.01 | 0.04 | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| PRI | 0.46 | 0.48 | 0.38 | 0.28 | 0.40 | 0.46 | 0.43 | 0.50 | 0.45 | 0.27 | 0.37 | 0.44 | 0.43 |
| Nr. cases | 36 | 10 | 13 | 3 | 4 | 7 | 8 | 10 | 1 | 2 | 2 | 1 | 11 |
| Solution consistency | 0.73 | | | | | | | | | | | | |
| Solution coverage | 0.77 | | | | | | | | | | | | |
| Solution PRI | 0.48 | | | | | | | | | | | | |
| Nr. Cases 1/0/C | 75/104/0 | | | | | | | | | | | | |

Moreover, upon examining the configurations 4, 13, and 12 closer, we can conclude that the traditional business model and creative orientation act as substitutes in combination with either absence or presence of the revenues diversifying business model (BM2). In our analysis, no cases that use both the traditional and the revenue diversifying model simultaneously are represented in the successful solution terms. In fact, our results show that combining business models seems to be challenging in general, if the firms want to achieve high performance in both domains.

There were two configurations that combined two business models successfully, each represented by only one case in our sample. Configuration 9 showed that the presence of the traditional creative service firm business model (BM1) can be successfully combined with the co-creating business model, if all other conditions are absent. Similarly, Configuration 12 shows that the traditional business model can be combined with the outsourcing-based product model (BM3), in the presence of a pronounced creative orientation, but absence of all other conditions.

### 5.4.2 Analysis 2: Low creative, high business performance

For the analysis of firms that exhibit high business performance, but low creative one, there was only one solution term, represented by two cases in our sample, that satisfied our sufficiency criteria. The configuration implies the absence of a creative orientation, presence of the traditional business model combined with the outsourcing-based product business model as core conditions, and the absence of other business models as peripheral conditions.

Table 5.3: (#tab: lowcrhighbus ) Parsimonious solution term for low creative and high business performance.

| Conditions | Configuration 1 |
|---|---|
| Creative Orientation | |
| Business Orientation | |
| BM1 | |
| BM2 | |
| BM3 | |
| BM4 | |
| BM5 | |
| BM6 | |
| Nr. cases | 2 |
| Solution consistency | 0.86 |
| Solution coverage | 0.04 |
| Solution PRI | 0.29 |
| Nr. Cases 1/0/C | 2/177/0 |

### 5.4.3 Analysis 3: High creative, low business performance

The solution terms for this outcome are quite surprising, given that four out of six configurations have the business orientation contributing in its presence to the lack of business performance. The most represented configuration (9 cases) is the scenario where a firm has a high business orientation, is implementing the in-house niche product business model, and does not use the co-creating model as the core conditions. The low business performance could be explained by the riskiness of the model, while creative performance due to fact that in-house production is very skill-intensive.

Table 5.4: (#tab:highcrlowbus ) Solution terms for high creative and low business performance.

| Conditions | Configurations | | | | | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| Creative Orientation | | | | | | |
| Business Orientation | | | | | | |
| BM1 | | | | | | |
| BM2 | | | | | | |
| BM3 | | | | | | |
| BM4 | | | | | | |
| BM5 | | | | | | |
| BM6 | | | | | | |
| Consistency | 0.67 | 0.85 | 0.77 | 0.76 | 0.79 | 0.82 |
| Raw coverage | 0.03 | 0.04 | 0.06 | 0.19 | 0.17 | 0.05 |
| Unique coverage | | | | | | |
| | 0.00 | 0.02 | 0.01 | 0.17 | 0.01 | 0.00 |
| PRI | 0.24 | 0.28 | 0.27 | 0.39 | 0.26 | 0.27 |
| Nr. cases | 1 | 1 | 1 | 9 | 1 | 1 |
| Solution consistency | 0.73 | | | | | |
| Solution coverage | 0.35 | | | | | |
| Solution PRI | 0.32 | | | | | |
| Nr. Cases 1/0/C | 14/165/0 | | | | | |

The more expected scenario is represented by configuration 5, where the business orientation is absent, along with all the other business models, except for the co-creating one, which is a core condition. According Configuration 1, combining Business Model 2 and Business model 3 while committing to both logics, is good for creative performance, but not for business performance. If both orientations are absent, the combination of Business Models 1 and 6, can still lead to high creative performance, but are not good for the business.

Configuration 2, similarly to the solution of high business performance, uses a combination of Business Model 1 and Business Model 3, and in both solutions creative orientation is absent. However, interestingly, the presence of business orientation and absence of other business models, makes this combination creatively successful.

### 5.4.4 Analysis 4: Low creative, low business performance

The analysis on low performing firms in both dimensions yielded three solutions. The first is a combination of the absence of creative orientation, the use of traditional business model, the absence of other business models, A similar solution where the business orientation was contributing to the outcome in its presence made the difference in Analysis 1 and ensured that the firms perform well both creatively and commercially. The second and third configurations show the absence of business orientation as a core condition, and the presence of creative orientation as a peripheral one, both having the absence of the traditional business model as a peripheral condition as well. One configuration implies combining the co-creating business model with the revenue diversifying business model. The other combination prescribes the implementation of the external investment model along with the in-house niche product business model.

Table 5.5: (#tab: highcrlowbus ) Parsimonious solution term for low creative and low business performance.

| Conditions | Configurations | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| Creative Orientation | | | |
| Business Orientation | | | |
| BM1 | | | |
| BM2 | | | |
| BM3 | | | |
| BM4 | | | |
| BM5 | | | |
| BM6 | | | |
| Consistency | 0.74 | 0.85 | 0.83 |
| Raw coverage | 0.15 | 0.02 | 0.01 |
| Unique coverage | | | |
| | 0.14 | 0.02 | 0.01 |
| PRI | 0.224 | 0.35 | 0.71 |
| Nr. cases | 5 | 1 | 1 |
| Solution consistency | 0.75 | | |
| Solution coverage | 0.18 | | |
| Solution PRI | 0.30 | | |
| Nr. Cases 1/0/C | 7/172/0 | | |

## 5.5 Discussion

Our results confirm our hypotheses, as well as the general conceptual propositions put forward by Ocasio and Radoynovska (2016): diverse commitments to competing logics lead to business model heterogeneity, and in turn impact the way firms perform. There are several important points to make based on our results.

Firstly, the interaction between logics and business models show a high degree of complexity. Contrary to the general expectation that significant commitments to both logics are needed in order to perform well in both domains, our results show that commitments to both creative and business logic work well in combination with certain business models, but not with others. Analysis one showed, that the firms that exhibit both orientations are successful in both domains only if they implement a single business model and not others.

Secondly, there are configurations that prove that it is enough to commit more to one logic, if other things are present. Creative orientation works with the revenue diversifying business model (BM2), while business orientation, in the absence of creative orientation works with either the traditional business model, or the co-creating business model (BM6). This could be explained by the fact that business model types can have a certain commitment to a certain logic by their very nature, similarly to what Amit and Zott (2007) have coined as the design-theme - business models that help to reach certain strategic objectives. For instance, the traditional business model is in itself slightly "creative", and so is the co-creating business model, meaning that a business orientation can only help to commit to both equally. The opposite goes for the revenue diversifying business model, which is much more business oriented, whereby the creative orientation helps to counter-balance the commitments to the other side.

In addition, while some commitment combinations match with certain business models, they are "difficult" with others. For instance, the same combination of high creative orientation and absence of business orientation led to firms performing well in both domains in the cases just discussed but failed to lead to high performance if combined with business models 3 and 6, or 4 and 5 (Analysis 4, Configurations 2 and 3).

Thirdly, when comparing some configurations across our analyses, we can see that commitments to logics

change the performance of the same business models. For instance, the implementation of the traditional business model in the absence of other business models leads to low performance in both domains, if combined with the absence of creative orientation. However, when combined with only the business orientation, or both orientations, it contributes to being good at both creative and business aspects of the firm's activities.

Fourthly, we also saw some configurations where commitments to logics are simply causally irrelevant. The configurations 2 and 3 of Analysis 1 prescribed that implementation of either the revenue diversifying business model (BM2) or the in-house niche product business model (BM4), given that all other business models are absent, was enough to perform high.

Fifthly, the most challenging finding result from the Analysis 3. In half of the sufficient configurations, the business orientation was present, it is therefore unexpected that the firms would score high on creative performance, but low on the business one. However, in those combinations the firms were also combining two business models, and mostly the more creativity- oriented ones. Hence, we can conclude that too much creative experimentation with business models for the sake of business performance leads to the opposite outcome.

Finally, this leads us to the one of the most interesting topics, namely, the implementation of multiple business models. Contrary to the much of recent literature, having multiple business models (Snihkur & Tarzijan, 2017) at the same time is difficult, for achieving conflicting performance goals simultaneously (Markides & Charitou, 2004). From a configurational perspective, one could expect that the other business models just are not causally relevant, when a particular business model is implemented. However, our results clearly show that the absence of other business models except for the one contributing to the outcome was a combined INUS union in almost all configurations in Analysis 1. There were only two configurations (9 and 12) that implied the use of two business models in a successful configuration, each represented by a single case. We can hence conclude that the higher the degree of strategic complexity that firms have to face, the more difficult it is to implement two or more business models simultaneously.

## 5.6 Conclusions

Base on the propositions put forward by Ocasio and Radoynovska (2016), we posited that firms that face competing logics commit to them differently, thereby creating business model heterogeneity, which in turn can explain performance differentials. We carried out a fuzzy set Qualitative Comparative Analysis to uncover the combinations of commitments to business and creative logics and business models that are necessary and/or sufficient for performing well both creatively and business-wise.

Our results contribute to several strands of literature. For the business model literature, our article proposes a typology of business models in knowledge-intensive service firms. This typology highlights the business model related decisions that are defining the differences between types. For the literature on organizational pluralism, it shows the business model related mechanisms that are needed, if firms are committing (either by choice or necessity) to several logics simultaneously, as opposed to focusing on one. We also contribute to the creative industries literature by showing how firms can balance between creativity and commercial interests by using business models. Finally, and most importantly, this paper shows the added value of applying the configurational approach to the study of organizations, and the combined study of business models and firm strategies in particular. Methodically we demonstrate how factor analysis and principal component analysis can be combined successfully with Qualitative Comparative Analysis.

## 5.7 Appendices

Table 5.6: (#tab: FAor) Original items for values/orientations scales and results of confirmatory factor analysis.

| Items (original pool) | Loadings Creative Orientation | Loadings Business Orientation | |
|---|---|---|---|
| Encourage employees to challenge the boundaries of our field (VC_1) | | | |
| Produce very innovative goods and services (VC_2) | 0.61 | | |
| Work on creative and/or challenging projects (VC_3) | 0.53 | | |
| Deliver goods or services that are publicly recognized for their excellence (VA_1) | | | |
| Receive awards for our work (VA_2) | | | |
| Deliver goods or services recognized for their contribution to the field (VA_3) | | | |
| Offer new perspectives and knowledge to the society (VS_1) | 0.88 | | |
| Contribute to solving societal challenges (VS_2) | 0.72 | | |
| Be a “good” company (VS_3) | | | |
| Expand turnover (VF_1) | | | 0.60 |
| Secure future profitability (VF_2) | | 0.72 | |
| Work on projects that bring in money (VF_3) | | | |
| Grow in terms of size (VF_4) | | 0.54 | |
| Commit to customer satisfaction (VM_1) | | | |
| Provide good value for our customers (VM_2) | | | |
| Take customer expectations into account (VM_3) | | | |
| Ensure that our unique advantages can withstand the changes in the industry (VE_1) | | | |
| Pro-actively face the challenges brought by technological development for us and our clients (VE_2) | | | |
| Take entrepreneurial risks to prepare for the changes brought by the market (VE_3) | | | |
| Cronbach alpha new scale | 0.783 | 0.644 | |
| Average Variance Extracted | 0.505 | 0.387 | |
| Chi-Square | 0.093 | | |
| RMSEA | 0.055 | | |
| SRMR | 0.058 | | |
| CFI | 0.974 | | |

Table 5.7: (#tab: FAperf) Original items for performance scales and results of confirmatory factor analysis.

| Items (original pool) | Business performance | Creative performance |
|---|---|---|
| Gross profits per partner. (BP_1) | 0.729 | |
| Competitive hourly fee. (BP_2) | | |
| Gross margin on provided services. (BP_3) | 0.730 | |
| Competitive cost structure. (BP_4) | | |
| Overhead percentage. (BP_5) | | |
| Retention of the largest clients. (BP_6) | | |
| Implementing new business models. (BP_7) | | |

| Items (original pool) | Business performance | Creative performance |
|---|---|---|
| Retention of clients. (BP_8) | | |
| Attracting new clients. (BP_9) | | |
| Growth in profits. (BP_10) | | 0.810 |
| Growth in staff. (BP_11) | | |
| Efficient firm organization. (BP_12) | | |
| Producing highly innovative work. (CP_1) | | 0.749 |
| Working on projects that challenge the boundaries of the field. (CP_2) | | 0.787 |
| Attracting the best creative professionals. (CP_3) | | |
| Reputation on the labor market. (CP_4) | | |
| Reputation among peers. (CP_5) | | |
| Receiving good critic's reviews for its work. (CP_6) | | |
| Receiving industry awards for its work. (CP_7) | | |
| Delivering work that is relevant for the society. (CP_8) | | |
| Working on projects that match the firm's creative and professional aspirations. (CP_9) | | 0.734 |
| Creating the desired impact with its work. (CP_10) | | 0.679 |
| Keeping the employees challenged and satisfied. (CP_11) | | |
| Cronbach's alpha | 0.798 | 0.824 |
| AVE | 0.577 | 0.552 |
| Chi-Square | 0.006 | |
| RMSEA | 0.084 | |
| SRMR | 0.045 | |
| CFI | 0.964 | |

Table 5.8: (#tab: PCAbm) Business model item pool, loadings of Principal Component analysis.

| Q2 Our firm offers services based on knowledge and expertise in… | PC1 | PC2 | PC3 | PC4 | PC5 | PC6 |
|---|---|---|---|---|---|---|
| A specific creative sub-discipline (for instance, graphic design, audiovisual services) (BM1_1) | | | | | | |
| A combination of several creative sub-disciplines (an all-around creative agency) (BM1_2) | 0.50 | | | | | |
| A combination of creative and non-creative disciplines (e.g. data analysis, manufacturing) (BM1_3) | | 0.35 | | | | |
| Q3 We offer services that include… | | | | | | |
| Research and strategy (BM2_1) | | 0.39 | - 0.50 | | | |
| Creative concept development (BM2_2) | 0.59 | | | | | |
| Production and/or implementation (BM2_3) | 0.54 | | | | | |
| Sales, marketing and/or distribution (BM2_4) | | | 0.51 | | | |
| Q4 We offer… | | | | | | |
| Own products (BM3_1) | | | | 0.51 | | |
| Services (BM3_2) | 0.63 | | | | | |
| Service platforms (bringing several parties together) (BM3_3) | | | | | | |
| Products/ services of others (BM3_4) | | | | | | |
| Q5 Our service offering consists of… | | | | | | |
| Highly customized services and products (BM4_1) | 0.66 | | | | | |

| Q2 Our firm offers services based on knowledge and expertise in… | PC1 | PC2 | PC3 | PC4 | PC5 | PC6 |
|---|---|---|---|---|---|---|
| Modular services and products (can be broken down into smaller components, offered separately, mixed and matched) (BM4_2) | | | | | | |
| Maintenance and service-level agreements (BM4_3) | | 0.56 | | | | |
| Q6 We differentiate ourselves from our competitors with… | | | | | | |
| Image of operational excellence (BM5_1) | | | | | | |
| Product and/ or service quality (BM5_2) | 0.62 | | | | | |
| Leadership in innovation and/or creativity (BM5_3) | | | | | | |
| Low cost/ efficiency (BM5_4) | | | | | | |
| Close customer relationships (BM5_5) | 0.55 | | | | | |
| Q8 We create value for… | | | | | | |
| Niche markets (applying our expertise in particular client sectors, segments) (BM7_1) | | | | 0.40 | | |
| General markets with no specific specialization (BM7_2) | | | | | | |
| Business-to-business (BM7_3) | 0.55 | | | | | |
| Business-to-consumer (BM7_4) | | | | | | |
| Business-to-government (BM7_5) | | | | | | |
| Q9 In order to deliver our services / products… | | | | | | |
| We acquire and develop the resources needed in-house (BM8_1) | | | | 0.45 | | |
| We outsource the resources that are needed to external parties (BM8_2) | | | | | | |
| Q10 The key partners needed in order to create our offering are… | | | | | | |
| Suppliers (BM9_1) | | | 0.52 | | | |
| Complementors (companies that sell products or services that complement ours, e.g. front-end development) (BM9_2) | | | | | | 0.43 |
| Competitors (BM9_3) | | | | | | 0.42 |
| Customers as co-creators (BM9_4) | | | | | | 0.42 |
| Partners for scaling our business (BM9_5) | | 0.55 | | | | 0.42 |
| Q11 The following arrangements are an important part of our revenue model … | | | | | | |
| Hourly rates (BM10_1) | 0.50 | | - 0.50 | | | |
| Royalties (BM10_2) | | | | | | |
| Product sales (BM10_3) | | | 0.55 | 0.43 | | |
| Licenses, subscriptions and usage fees (BM10_4) | | 0.60 | | | | |
| Mark up (margins on reselling or fee for mediating transactions between parties) (BM10_5) | | | | | | |
| No cure, no pay (BM10_7) | | | | | | |
| Investing our time or money in other enterprises (BM10_9) | | 0.50 | | | | |
| Q12 The income needed to operate our business comes from… | | | | | | |
| Revenue generated by our own activities (BM11_1) | 0.54 | - 0.50 | | | | |
| Revenue from other spinout and/or affiliate firms (BM11_2) | | 0.50 | | | | |
| Subsidies and grants (BM11_3) | | | | | | |
| Loans (BM11_4) | | | | | 0.96 | |
| Returns on external investments (BM11_5) | | | | | 0.95 | |
| Eigenvalue | 5.66 | 4.04 | 2.89 | 2.56 | 2.01 | 1.68 |
| Percentage of variance explained | 13.18 | 9.39 | 6.73 | 5.96 | 4.89 | 3.90 |
| Cumulative percentage of variance explained | 13.18 | 22.57 | 29.30 | 35.25 | 40.15 | 44.06 |

## 5.8 References

# Chapter 6

# Conclusions

Intro to conclusions.

## 6.1 Summary of results

# Chapter 7

# Appendices

Here you can find everything that doesn't belong in the main text.

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