

Managing competing goals through business model design

Paradoxical and configurational learnings from creative service firms

Ieva Rozentale

2019-01-14

Contents

Abstract

Hi there!

My name is Ieva, and this is the draft of my dissertation on business model design for paradoxical goals in creative industries. I am writing in RStudio because I use R to do my data analysis. Also, it is easy to do updates based on version control and I like the ease of referencing.

The code used for this manuscript is based on R Markdown and **bookdown** (<https://github.com/rstudio/bookdown>). Please see the page “Get Started” at <https://bookdown.org/> for how to compile this example.

Please note that this is an unpublished draft version of my work. If interested, please email me at i.rozentale@uva.nl on how to reference it accordingly, or any other possible questions.

Acknowledgments

Chapter 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

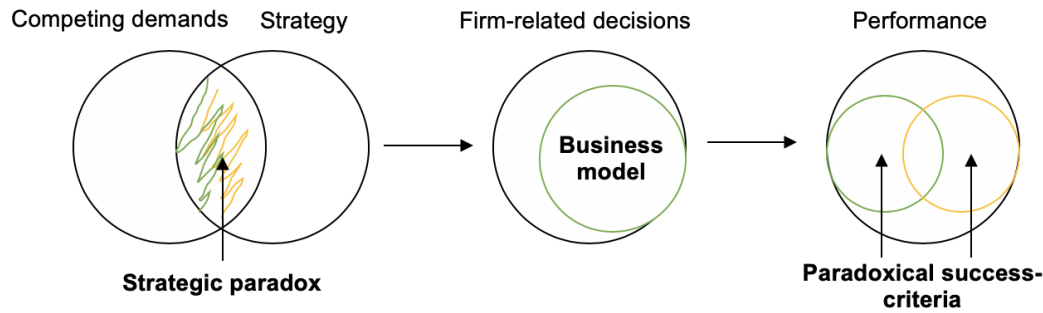
Most business surveys will reveal that having a good business model has become more important than having a new product or service.¹ According to most textbooks, designing a business model is easy. One should figure out what value the firm can bring to which customer segments, find the best way of doing so, and it should work for both the customer and the business. The real world, however, is not one where clients, managers, suppliers, employees, and the society magically want the same.

This thesis explores the decisions top-managers make about their firms’ business models in the presence of strategic demands 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 (???). Most commonly, strategic paradoxes are pairs of goals, which appear as opposites but are both needed. Think of learning and performing, long-term and short-term planning, exploring and exploiting. While I study how the conflict between creativity and commercialization is navigated in creative service firms², 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 strategies work? I strongly believe this question is relevant beyond the studied field, as incorporating beyond-profit considerations, mostly social and environmental, in enterprise design is (hopefully) on its way of becoming the norm. At a personal level, it is driven by a more mundane question - when presented with seemingly impossible choices, how do we proceed in the most successful way? How do we as entrepreneurs and decision-makers *kill two birds with one stone*?

Business models were chosen as the focus of investigation for they are increasingly recognized among the most important sets of strategic decisions that firms can make, determining largely the value that firm creates (?). This is also how I understand business models in this thesis - as a set of decisions made about the product(s) and/or service(s) to deliver, target customers, as well as the appropriate value creation and capture mechanisms to link the two (?). To explore the process and content of business model design for strategic paradoxes thus means to explore the specific decisions and the process behind them. I use paradox theory as a conceptual lens for framing competing demands, and creative industries as an exemplary *paradoxical setting*. The general model is presented in Figure 1.1, and the concepts of focus on are marked in bold.

¹For instance, many sector specific surveys of the Economist Business Intelligence Unit confirm this statement <http://www.eiu.com/home.aspx#about>

²Design consultancies, architecture firms, advertisement companies, firms providing audiovisual services, digital agencies and similar firms.



These relationships are 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?; and 3) How should we conceptualize organizations in order to study the relationship between the two? The question “Why creative industries?” will be tackled in-depth in the next chapter.

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)

Uninventively, this is the most common quote about paradoxes one would find in an online search. It comes, however, from a field very distant to that of organization studies - quantum physics. I hope you will forgive the short detour and take this leap with me.

This quote was part of Niels Bohr’s response to Einstein’s famous thought experiment ‘Can Quantum-Mechanical Description of Physical reality Be Considered Complete?’ (?). In this article, Einstein put forward what he considered a fundamental *flaw* in the quantum mechanics. This at that time very new field of physics posited that a 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. According to Einstein, this 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 how can we link quantum mechanics with the study of organizational paradoxes? Besides being a beautiful 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 and universal 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* (?) already more than 20 years ago. According to the author, ‘paradox has almost become a cliché 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 (?) and related

theories for explaining many organizational phenomena has proved that the paradox perspective can help to look at many traditionally troublesome and difficult 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 (?), exploration and exploitation (?), control and collaboration in the context of governance (?), and many others. Studies so far have extensively dealt with the very nature, sources, and implications of paradoxical tensions (?). Building on that, authors have made conclusions about the leadership styles (?) and structures (?) needed in order to manage paradoxes, mindsets that help to accommodate paradoxical thinking (?), rhetorical devices (?), identity work (?), innovation management (?) 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 I 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 interdependent objectives that an organization is pursuing (?). 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 uncertain, inconsistent, and paradoxical nature of strategic decision-making.

1.1.1 Framing competing strategic demands

How do we understand our world when it gets more complex than getting to A? How do we interpret what has to be done when there is more than one goal? How do we prioritize, and do we, at all?

Competing strategic demands are not a new phenomenon in the management literature (?). Many theories explicitly or implicitly have dealt with the issue, and many terms have been coined to denote such conflicts; just to name a few - dualities, polarities (?), dilemmas, tensions, pluralism, institutional logics. These and similar topics have been addressed in the literatures on competitive strategy, ambidexterity, tripple bottom line, innovation management, internationalization, social entrepreneurship, and others.

Yet, even though contradictions are inherent to organizational life, we have a natural tendency to strive towards consistency. Psychologists have repeatedly concluded that humans are not comfortable with cognitively dissonant states (?). Unsurprisingly, this is also reflected in the dominant narratives of the management scholarship. Even though tensions and strategic conflicts are recognized, they are then often tackled as an optimal solution problem, using a *contingency approach*. A contingency approach or “if-then” thinking focuses on finding conditions in which a choice towards one or the other strategy can be consider as the optimal. But the way we interpret things changes the way we experience them, and consequently act upon them.

As argued by paradox scholars and outlined earlier in this introduction, in many situations, approaching problems from a choice perspective is impossible. The pace of development and the interconnectedness of the world in the 21st has lead us to believe that we organize and manage in unprecendently complex environments. In a reality characterized by high complexity, the ability to navigate tensions and competing demands has transformed from a peripheral skill to a necessity. Consequently, those managers and firms that can embrace dualities, as opposed to seeking solutions, will win.

So what does a paradox perspective offer? What changes if we frame the conflicts differently? Chapter 2 tackles these questions in a thoeretical thought experiment supported by empirical evidence gathered in the qualitative stage of the field work for this dissertation.

1.1.2 Pursuing conflicting goals only outline

- The negatives associated with the seeming incompatibility and complexity of the realities the managers have to deal with. Pursuing conflicting strategies is frustrating, it can trigger withdrawal, denial, cause tensions, ignorance, xxxx.
- On the opposite, literature has also discussed the positives of xxx. inspiring, creativity triggering, enabling.
- According to ?, succesfully dealing with paradoxes requires specific mindsets and practices, as well as organizational-level conditions that enable them. Much research has been done recently on the mindset part (?), as well as the organizational conditions [REF]. The empirical part of this dissertation focuses on investigating the practice-level of paradox management.
- Dynamic equilibrium model of organizing: In the end, organizations need to come up with coping mechanisms, balancing acts, as “usual” decision-making strategies do not work. 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” (?). 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.
- Integration and separation at different levels.

Chapter 3 looks more in detail in what forms can these two decision-making strategies can take, and how they are applied to business models.

1.1.3 Business modelling for complexity to do

Are these strateies equifinal? Does it matter what we choose? Are there performance implications? These questions are tackled in Chapter 4.

1.1.4 Business model heterogeneity and performance implications to do

Do differences in the importance that are attached to each of the dimensions lead to business model heterogeneity? And what are the performance implications? Chapter 5.

How can we make them fit complex strategic intents?

1.2 Same same but different: Operationalizing business models in progress, the answer to Jan’s concerns

While conventional standards would probably require this dissertation to use a consistent operationalization of the business model concept throughout all of the independent studies, instead it mirrors the plurality of the study field. The business model scholars have by now agreed on a general definition which delineates the domain studied, as well as the different possible purposes of using the concept (?). However, finding a single operationalization has proven to be impossible (?). Studies use very different ways of observing and measuring business models. This is also because the concept as a tool can be used for different purposes both empirically in the managerial practice(?).

While staying true to the conventional definition and domain delineation which relies on four domains in which decision can be made - value proposition, value delivery, value creation, and value capture, each of the papers in this thesis in fact looks at the business model from a slightly different perspective (see Table 1.1).

1. Chapter 3: the purpose of decision making
2. Chapter 4: the extent to which they integrate or differentiate paradoxical considerations
3. Chapter 5: specific decisions that compose a business model, based on which we derive a taxonomy

1.3 Purpose and overview of the thesis

Chapter	Research Question	Research Approach	Data	Contributions	Business model conceptualization
2 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;	-
3 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'	Process of decision-making
4 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=179), expert surveys (n=4)	A configurational perspective to paradox management; Empirical evidence for inter-relatedness of business model elements;	Configurations of integration and differentiation decisions
5 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=196)	Explaining business model heterogeneity as a result of different value profiles, and linking them to performance outcomes;	Empirically derived taxonomy

1.4 A note on methodology: Studying organizations as configurations in progress, for now copied from the earlier versions of P2

While on a theoretical level this thesis brings together paradox theory and business model literature, at the methodic level, I make use of the configurational theory and the methods developed within the field. Since it is not a traditional perspective used in management studies, even though upcoming and often implied, I assume it requires some explanation as to 1) how it is relevant for this thesis? and 2) what it means to study organizational phenomena as configurations. This section also complements the method sections of Chapters 4 and 5, giving a broader context and extra insights into the workings of QCA than possible within the limits of a single paper.

1.4.1 Configurations and QCA for business model research

Configurational perspective is based on the assumption that “cases under study [are] constellations of interconnected elements” (Ragin, 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 (Ragin).

QCA is a set-theoretic method, employing a causes-to-effects approach to examine combinations of causal conditions (sets) instead of the more traditional search for linear causation (Ragin). The method thus assists in answering questions that imply configurations, e.g. what conditions (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 (Ragin; Ragin).

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 (Ragin).

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 configurational nature of the concept. The lack of appropriate analytical tools has been a general problem of naturally configurational concepts. However, as argued by Ragin and Ragin, the development of methods such as QCA 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 (Ragin).

1.4.2 The process of fs QCA

QCA is case-oriented, as opposed to the variable-oriented methods (Ragin). When applying QCA in organization studies, variables (referred to as conditions in QCA) 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 (Ragin). A set can be a single condition (e.g., client segmentation) or a combination of conditions (e.g.,

high creative AND business performance). Each case (firm's survey response, in our case) is expressed in terms of its membership to the defined sets. The process of transforming gathered raw data about cases into membership scores is called calibration (?). 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 the point of maximum ambiguity, when a firm has both a degree of membership and non-membership of 0.5 in the given set (?). 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).

When the data is calibrated into sets, a *truth table* is computed. It is the main analytical device of QCA. It shows all the possible combinations of the defined conditions (for five conditions that would mean 32 possible combinations), also those that are not observed in the data. Each row of the table represents a unique configuration. To identify the configurations leading to the defined outcome, the truth table is further minimized or reduced performing a systematic cross-case analysis based on Boolean algebra (?). In order to do so, the researcher has to: 1) set the thresholds of consistency and frequency for rows to be allowed in the minimization, 2) specify the assumptions about directionality of the relationships between conditions and outcome, and about easy and difficult counterfactual analysis will be performed (Enhanced Standard Analysis), and 3) evaluate the model based on parameters of fit (?).

Consistency indicates the "degree to which a proposition about the sufficiency/necessity of a condition for an outcome is true." (?) It can have a value between 0 and 1. If the score is low, we cannot deem that a configuration is sufficient/necessary, as it is not supported by empirical evidence. *Frequency threshold* refers to the number of empirical observations that display the specific configuration, in order for it to be included in the minimization.

In addition, three other parameters of fit assist in evaluating the model - coverage, proportional reduction in inconsistency (PRI) and relevance of necessity (RoN). *Coverage* shows the percentage of cases observed for which the configuration is valid. Low coverage, as opposed to the case of consistency, does not indicate the irrelevance of the configuration, it is simply represented by few empirical instances. *PRI* shows the degree to which the specific configuration (or the whole solution) is not simultaneously sufficient for the presence of the outcome, as well as its absence. *RoN* is a measure of triviality that shows how close a condition is to a constant (??). Table ?? shows an overview of the main possible issues in model evaluation and the ways we dealt with them.

In the minimization procedure, there are three search strategies that are applied each producing different solution types (???). According to ?, a thorough QCA produces all three of them in each analysis. The *complex solution* shows the configurations that are sufficient for the outcome without any counterfactual analysis, meaning, based only on the empirically observed instances, no logical remainders are included. The *parsimonious solution* on the contrary includes all the logical remainders, without evaluating their plausibility. This solution term is considered the most causally relevant, as it shows the largest solutions sets. The *intermediate solution* requires the researcher to make several evaluations: 1) in the unobserved configurations, are the conditions expected to contribute to the outcome in their presence or absence? (directional expectations based on theory), 2) are there any instances where the same rows are found to be sufficient for both the presence of the outcome and its absence? (easy counterfactuals)?, and 3) can / should conditions be removed in parsimonious solution based on substantial knowledge about them (difficult counterfactuals)?

In line with the currently accepted standards of good practice in QCA (???), we report both core (for presence and for absence) and peripheral conditions (for presence and for absence). The peripheral conditions represent the ones present in the intermediate solutions, and the core conditions are the ones present in both the intermediate and parsimonious solutions. Blank spaces in the table indicate that in the given solution the condition is not causally relevant.

References

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 origins 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;

2.1 Introduction and Lit review notes

The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function. (F. Scott Fitzgerald)

Human creativity is increasingly seen as a key resource for innovation, entrepreneurial success, sustained competitive advantage, economic growth, and complex societal problem-solving (?). This growing importance of creativity has drawn considerable research attention to the creative industries - the individuals and organizations using creativity as the main resource of production [Ref]. As a setting it has been extensively studied both being an object of inquiry in itself, as well as an exemplary field for understanding the organization of creativity and thus the anticipated developments in other settings. The questions that are explored in the setting are very diverse, and have helped to shed light on xxxx xxxx.

However, also a notable limitation can be identified. Most of the theories that the creative industries research relies on theories the . * As implied in the title of the nominal work on the economic aspects of creative industries by Richard Caves - contracts between arts and commerce - creative industries and the entrepreneurship within is a hybrid, a compromise of creative endeavours and doing business. The key defining principle of CI is thus the conflict. This is also the premise of the field of workings. INterpreted, according to the same tradition as in arts, as creating dual structure within the sector - at market level - niche. Individuals, creative non creative that are diverse, and difficult to collaborate, at strategic level, at sociological level - capitals.

Intro: Why would one research creative industries? Politically, the creative industries setting has been interesting since it has been included in specific neo-liberal political agendas at city and government levels, for

economic, cultural and social policy targets. Economically, higher value added, innovation. From an organizational perspective, it is seen as a future-forward setting, a forerunner of new forms of labour organization and entrepreneurial activity. Sociologically,

Creative industries - a definition and the development of the concept linked to art

Art versus money: Why we mostly think so? From the book of Bilton - that even in the arts world the notion is rather new against the backdrop of the whole art's history, and only exists since the romantic victorian period. Before artists didn't have that much problem with money-making (Claartje's thesis).

The paradox perspective The prevalence of persistent tensions that are seemingly irreconcilable is not necessarily exclusive to the creative and artistic settings. More recently, in response to the need to manage such tensions the paradox perspective has emerged.

Many existent studies on creative industries suggest that these problems arise due to the conflict between creative and financial goals pursued (Townley et al., 2009, REF). Translating the romantic art versus commerce conflict to creative industries, the authors argue that the cultural (or artistic, creative) fields and economic fields are distinct from each other and have different sets of rules, logics and reward systems (Bourdieu, 1993). As Hesmondhalgh (2006) explains, marketing (i.e. commercialization) and increased scale in cultural production (i.e. increasing the economic profit) comes at the expense of lower levels of symbolic capital and loss of autonomy, and vice versa.

What is you gap/ RQ? * However, how we commonly understand the field is largely based on the huge body of work that existed before the 2000s on the economic and sociological aspects of the cultural production and consumptions in the arts and cultural industries. * This view is adopted from previous work on more traditional arts fields. And creative industries are seen as a new extension of this field. * Many have argued that this clear distinction is untenable. That in fact, creative and commercial considerations, aspects are intertwined etc. jacobson - double success criterion. However, not much work exists beyond stating this fact. How do

For a long time, the art versus commerce conflict has been examined from a trade-off perspective, implying that the conflicts can be resolved by choosing between the two poles. Most normative statements conclude that cultural values should be privileged opposed to economic ones (Slater & Tonkiss, 2001). However, as argued by Jacobs more recently (2012; 2013), firms in creative industries, as opposed to arts organizations, face a double success criterion. Instead of choosing, they have to simultaneously build up reputation for being creative in order to become financially successful, and work on commercialization in order to be able to produce creative work. Hence, the creative industries tensions are more paradoxical, rather than trade-offs, as both creative and financial success are needed, but each goals require fundamentally different, at times even mutually exclusive decisions, resources and structures. According to the scholarship in the field of paradox theory, many of the tensions and complex demands in in contemporary entrepreneurship are in fact paradoxes ??? ???contradictory yet interrelated elements of organization that seem logical in isolation but inconsistent and oppositional in conjunction and yet persist over time??? (Jarzabkowski et al., 2013, p.245). According to paradox scholars, successful organizations apply a "both/and" approach to these tensions - instead of choosing between A and B, they seek to find a balance between both demands (Lewis & Smith, 2014; Shad et al., 2016). However, accommodating of paradoxes in organization is a challenging task and requires specific types of practices and decisions.

What do you do to address this gap?

We believe that paradox theory can shed light on these questions. In this article, we suggest that the conflict between creativity and commerce in creative industries is better seen as a paradox??? This is a conceptual paper that applies insights from paradox theory to provide an improved understanding of the tensions identified in prior literature, and their implications for creative industries research and practice. The conceptual supported by empirical illustrations from a research study conducted in order to understand the interplay between business and creative orientations in the creative industries.

So what? This provides researchers in many domains interested in studying creative industries a new perspective to frame their questions + practitioners the opportunity to reframe their problems and find

tools for coping with them, previously thought of not being possible.

2.2 Creativity versus commerce: What the literature says?

The clash between the creative expression and the business success, efficiency and “managerialism” has been discussed extensively in arts management (Chaston, 2008; Hirschman, 1983), cultural sociology (Negus, 1995) and cultural economics (Caves, 2000, Caves (2003); Holbrook and Addis, 2008). More recently the discussion has also appeared in entered the realm of entrepreneurship research (DeFillippi et al., 2007; Jones et al., 2015; Lampel et al., 2000; Townley et al., 2009). The assumptions on the divide between creativity and commerce in creative industries are inspired by two main contributions - the notion of the Culture Industry introduced by Theodor Adorno and Max Horkheimer in the chapter “The Culture Industry: Enlightenment as Mass Deception” of the book *Dialectic of Enlightenment* (1946; 1972), and the Theory of Fields put forward by Pierre Bourdieu (Bourdieu and Johnson, 1993; O’Connor, 2010; Townley and Beech, 2010). Adorno and Horkheimer coined the term Culture Industry to designate the factory-like production of cultural commodities. According to their ideas, “under monopoly capitalism, art and culture had [now] become thoroughly absorbed by the economy” (O’Connor, 2010, p. 11). For them the Culture Industry united the worst of both worlds - popular culture and high art. It used the new mass reproduction and distribution opportunities to circulate cultural goods resembling art but deprived from the meaning and depth, aimed to control the masses (Horkheimer and Adorno, 1972, 1946; O’Connor, 2010). These ideas were further advanced in Bourdieu’s Theory of Fields. According to Bourdieu (1993; 1992) the economic power field (and hence the economic production and consumption) and the field of cultural production are two distinct fields, with different agents, sets of rules, logics and reward systems, according to which different types of capitals are generated and exchanged. As Scott explains, “for Bourdieu, capitals are unevenly distributed relational assets of accumulated power resources endowing actors with field-circumscribed agency.” (2012, p.244, referring to Bourdieu, 1997, p.46). The Economic Field is characterized by high levels of economic capital but low levels of cultural capital (knowledge) and symbolic capital (prestige and reputation), and the opposite holds true for the Cultural Field. While all forms of capital can be mobilised and converted, the possession of these power resources gives different advantages depending on the field and its rules (Scott, 2012). For Bourdieu, the large-scale cultural production, which would include creative industries, is a somewhat corrupt subfield of the Cultural Field. Agents use and produce both economic and cultural capitals, but because of the interaction with economic field, it comes at the loss of autonomy and symbolic capital, which to the author is the most important type of capital for creative production (Bourdieu and Johnson, 1993; Hesmondhalgh, 2006). It follows from this argument that the true, autonomous cultural production can only be small-scale and independent of the field of power and economy (Hesmondhalgh, 2006). Consequently, when used for theoreticizing about the management of cultural production, these ideas have developed into a trade-off perspective where pure creative and commercial creative production are often seen as irreconcilable. Scholars have explored this opposition across multiple levels. At the industry levels, theories divide markets into mass (commercial) and niche (artistic), and propound that different kind of creative production takes place in each of them. At the organizational and decision-making levels, the available strategic choices are equally seen as a trade-off, or an “or/if” approach. Similarly to the work developed on the generic strategies of competitive advantage (Porter, 1985), where firms are thought to compete based on either quality and reputation or on cost efficiency, in the creative setting firms would have to choose between a commercial or creative-artistic strategy. These are seen as mutually exclusive and no hybrid combinations are advisable or possible, since they have contradictory aims and use different resources and target separate markets (Canavan et al., 2013, better references). However, many authors argue that such a clear distinction 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 poles (Hesmondhalgh, 2006; O’Connor, 2010). The Theory of Fields might be applicable to explain the arising tensions, however it would be more realistic to view both domains of activity as symbiotic and interrelated (Ilozor et al., 2006; Nation Strategic Working Group, 2000). This view is increasingly accepted in the recent creative industries’ management literature. While pursuing creative and commercial ends simultaneously creates certain tensions, the co-existence of conflicting demands is seen as an organizational feature that cannot be changed and has to be accepted and managed

(Bilton, 2007; DeFillippi, 2015; Lampel et al., 2000; Townley et al., 2009). Such competing strategic goals can be framed as paradoxical (Smith, 2014; Smith and Lewis, 2011), and resemble other similar competing goals, e.g. social mission and profit, or exploration and exploitation. This alternative framework has further implications for managing and organizing.

2.3 Creativity and commerce as a paradox: Empirical support

Across all cases the founders and managers experienced tensions arising from the clash between creativity- and business-oriented goals. The tensions came about as a result of both conflicting internal motivations, as well as competing external preassures. Despite the different drivers, we were able to identify all three commonly distinguished features of a paradox - conflict (opposition), interdependence and persistence over time.

2.3.1 Conflict and opposition

The conflict between creativity and business related goals was acknowledged in all cases. However, the nature and experiences of the opposition differed slightly across the sample, depending on the motivation to engage in creative entrepreneurship and the importance attached to certain aspects of both strategic intents. Some leaders showed a stronger urge for expression and pursuing personal goals and felt that it contrasted with what was required in order to survive in the business. Others were more prone to achieve external recognition and create impact, whether it was boundary spanning innovation or social impact, which then conflicted with the constraints imposed by clients or again the entrepreneurial realities. The resulting salient tensions pervaded several organizational issues - identity perception, decision-making, resource requirements, valuation and transaction models, work preferences, as well as employee retention and engagement.

As documented in prior studies on creative entrepreneurship (Gotsi et al., 2010), the opposition and conflict often arises as individuals are forced to enact two opposing identities at the same time - that of a creator and that of a businessman. As explained by one of the managers interviewed, this conflict equally prevails at the level of organization: “[...] 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) We further found that this opposition equally permeates the perceptions as to what exactly is the content of economic transaction between the firm and the client and how it can be valued. A recurring conclusion in our conversations was that producing creative outcomes is time-consuming and unpredictable. This makes trying to put a price tag on it difficult, as it is not easy to explain exactly what the clients are paying for. As a result, prioritizing quality over efficiency, firms often invest more hours than they can bill, reducing the overall financial stability of the company; or, compromising quality, risk losing clients in the future. A co-founder of one agency gives the following comparison: “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) However, our interviews revealed that the greatest deal of the oppositions are rooted in the personal preferences of both leaders and employees in general. We already know from literature that satisfying and retaining talent is a key to success in business settings entirely dependant on highly skilled labour (Teece, 2003). In creative sectors, more often than in other economic settings, people enter the labour market and begin enterprises due to intrinsic motivations (Throsby, 2008; Fillis or Chaston, 2008). The internal motivations then conflict with market requirements and constraints. Their primary activity is to create, and they want to create something that contributes to the world, the type of work that is challenging, not boring and repetitive, yet useful and meaningful. There is hence a paradoxical conflict between the type of creative work that they would ideally want to engage in and the type of work that is available to them on the market and would help the business become more profitable. The head of strategy and design of a digital agency put it as follows: ‘It should be a

new thing, that's important for us. That it really for us, as designers, is like a puzzle but has not been solved yet. I think it's really important for us to solve puzzles because that's what we do all day.'(Case 15) Yet this type of work is not usually the one that is best paid, and these kinds of projects are few when compared to the overall demand. Even when there are projects that would be commercially very attractive, the intrinsic willingness not to work too much on the commercial side defines many of the major business choices. This is further reflected as a clash between the criteria to favour upon decision making. Which of our assets do we choose to forefront as an organization? What are the right resources to develop? And how do we design our business to make sure we create value for the client and the enterprise, without compromising our own aspirations and reputation? The commercial director of a spatial design agency explains: '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)

2.3.2 Mutual interdependence: the double success criterion

Despite the personal preferences and the perpetual oppositions, informants repeatedly also stressed the interdependence between the creative and business outcomes. This paradoxical feature provided evidence for what we have earlier defined as the double success criterion - organizational success is defined by conflicting, yet mutually necessary and interwoven goals. It manifested in three ways. First, the very terms that managers and founders used to describe their business revealed the interrelated aspect of the two poles and how they define each other. The founders often referred to themselves as being "creative entrepreneurs" and described their main activity as the "business of creativity" or "selling creativity". Second, the leaders almost naturally accepted and worked through paradoxes in their daily practice. This paradoxical thinking in practice manifested the most in the way the managers define and describe the selection- and success-criteria that form the basis of their decision-making. The following quote is exemplary of the paradoxical thinking in the setting and similar quotes can be found in each of our cases: "[...] is it content-wise interesting, financially interesting and the third is: is it a new market? Is the client interesting? If you say, OK, we won't earn much with it, this theme is also not like - wow!, you know, but OK, nice. But the client is enormously interesting [...], it's a good name to have on you list, huh, so that is also one of the reasons to do that. [...] but all projects have to better score two of the three, even better if it's all three."(Case 16) As we will see in the next section, the approach to applying criteria when making decisions will also be the distinguishing feature between different approaches to managing paradoxes through business model design. Third, the interdependence between the poles was best revealed when foregrounding only one of the poles to discuss the possibilities of choosing only one side. One founder explains how being only creative would not lead to success in the industry: "That whole business side, I find it crucial for a creative enterprise. I always say: we differentiate with creativity, but we earn it with the project management side. We earn it with the organization of the whole business. If you let pure creativity take its course..." (Case 8) On the opposite side, the managing director from another company discussed the prospects of prioritizing only commercial goals as depriving the whole business from what it is: "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)

2.3.3 Persistence over time

Finally, as exemplified in the previous quote, the paradoxical nature of the creative entrepreneurship it is not always necessarily about single choices but about the durability of the conflict. The way the founders and managers experience their whole entrepreneurship process can be indeed compared to a "balancing act" (Lampel et al., 2000). It implies that the conflict will reoccur if the overall pattern is unbalanced on one side or the other. The very essence of the creativity-business paradox was very nicely explained by the founder of a packaging design agency: "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) This last quote illustrates the possibility of entering virtuous or vicious circles based on an unbalanced decision-making, as explained in the model of Smith and Lewis (2011). It also beautifully coincides with what Charles Handy wrote in his book *The Age of Paradox* as early as in 1995: "Living with paradox is like riding a seesaw. If you know how the process works, and if the person at the other end also knows, then the ride can be exhilarating. or [...] you can receive a very uncomfortable and unexpected shock." (p.48). We can gather from our recounts that not only are the leaders in our setting exposed to a paradox, but they are almost naturally paradoxically thinking and accepting of the fact that their enterprises and economic activity is embedded in and results from these opposites. However implementing paradoxical thinking in important business decisions can be more challenging than accepting the paradox. We now turn to the results that explain how this paradoxical thinking is translated when making business model choices.

2.4 So WHAT?

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 (??). 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 (???). While designing a commercially successful business model is not an easy task (?), 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 (??).

In fact, paradoxical - conflicting, yet interrelated and persistent - goals are not restricted to particularly salient settings as the ones mentioned alone (??). Almost all firms have to simultaneously think about their long- and short-term interests (?), learn and perform (?), explore and exploit (?), or increase profits and be socially responsible (?). Paradoxical goals are hence an inevitable reality of most contemporary enterprises (?). Such goals compete for organizational resources and attention (?), whereby operationalizing them for successful value creation and capture requires complex business models (?). 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 (??). Empirically, some separate practices have been identified in the social entrepreneurship literature, as well as discursively in the paradox literature. For instance, ? 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 (?), client segmentation (?), and value chain integration (?) 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 ? and ?. 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”(?, 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 ? and ?). 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* (??) - 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 (??). 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 (?) 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 (?) 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” (?, 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” (?, p. 6).

According to paradox scholars, many organizational phenomena can be framed as paradoxical, for instance, tasks, demands, identities, cultures, and also goals (?). 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* (?). 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 (??). Strategic paradoxes are particularly dominant and influential for they penetrate the whole organization and jeopardize its ability to sustain itself in the long-run (??). 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 (?). The paradox literature also offers specific management strategies for grappling with such challenges.

? 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 (?). 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 (?). 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 (??).

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”(??).

Integration approaches imply searching for compromise in terms of solutions that embrace both poles (?), for example, hiring all-around employees that adhere to both visions (?), or that have multi-sided skills (?), creating an organizational meta-identity that unites both poles (?), or building common organizational value system through communication of the dual strategic goals (?).

According to ?, each approach is needed for successful paradox management. Differentiating approaches stress the unique characteristics of each pole, while integration approaches emphasize synergies and connec-

tions. If companies manage to successfully implement “consistently inconsistent decision-making patterns” (?), 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 (?).

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 (?), 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 (??). The business model perspective has emerged as an alternative way of conceptualizing and describing how firms do business (?) 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 (?), and promotes “voluntary choices over environmental conditions” (?, p.2).

In order to understand what business models are, scholars often first explain what business models are not. As ? 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 ? 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 (?). 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 (???).

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 (?). As explained by ?, “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” (?, p. 449).

3.2.3 A paradox perspective to business model design: Conceptual framework

? 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 (?), as opposed to the common conceptualization that sees business models as descriptions of how firms earn money through their value propositions (?).

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 (??). Yet, according to ?, 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 (?), networked resource acquisition (?), or client selection (?), 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 (?) can be successfully 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 (?). Figure ?? 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 (?). 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.

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 (?). Throughout the research process we followed the suggestion on the process of theory building from case-study research as described by ?, ?, and ?.

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 (??), professional service firms (PSFs) (?),

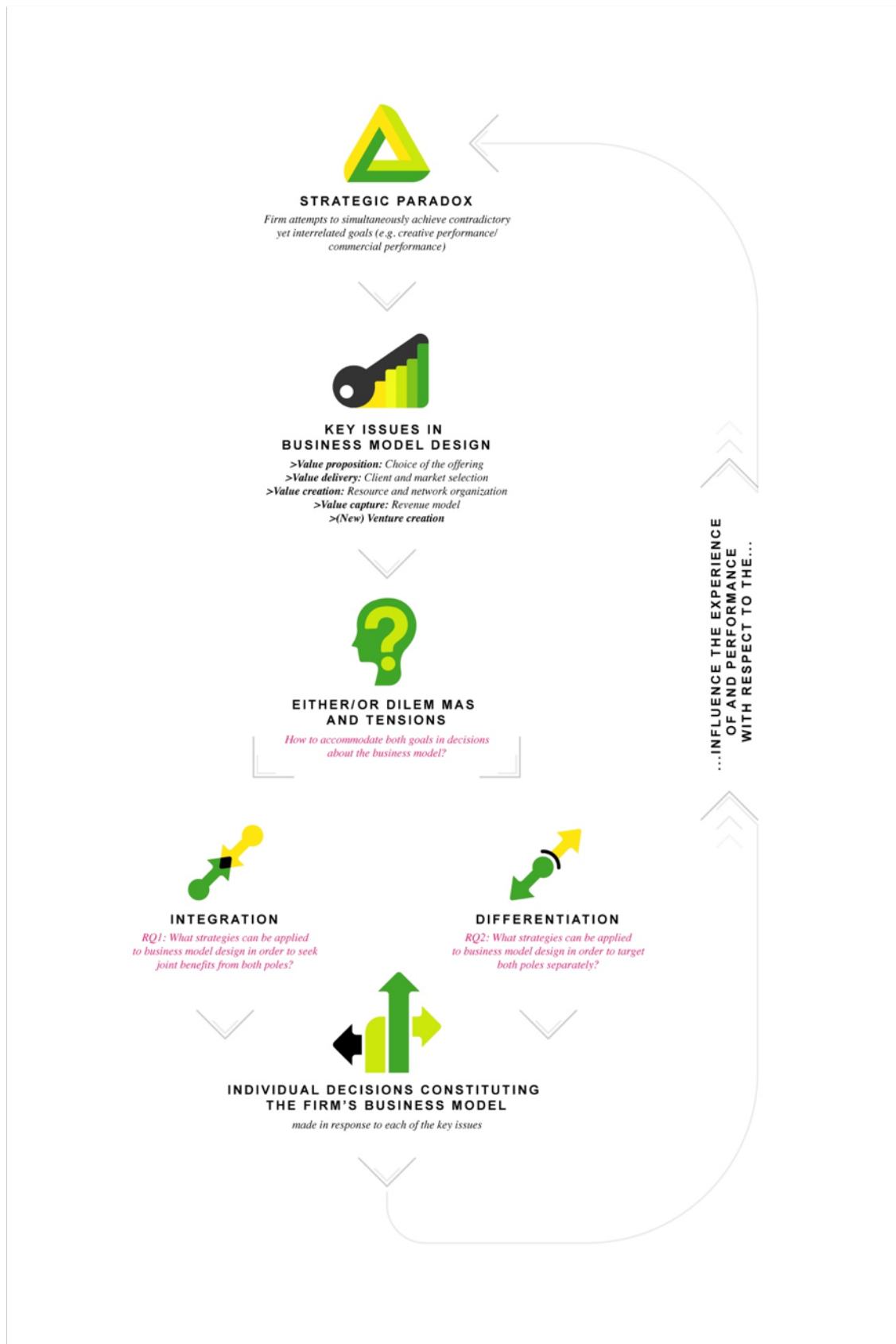


Figure 3.1: Conceptual model.

and knowledge intensive business services (KIBS) (??). 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 ?? 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: 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 (?). They 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 (??). 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 (?). These firms cannot benefit from economies of scale through traditional means, neither through digitization, as the knowledge intensity requires a close contact to clients (?). 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 (?). 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 (???).

? 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 (?) 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 (?). Consequently, similarly to the work developed on the generic strategies of competitive advantage (?), 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 they want to target (?). At the decision-making level, creative firms have been found to consistently prioritize professional standards and creative aspirations over monetary value (??). 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 (?). 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 (??). 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 (?). 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 (???), 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 ? 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 ?? 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)

Features of the strategic paradox	Illustrative quotes
Interdependence	‘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) [...] 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 ? and the example of ? 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 ??) 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 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)

TACTICS FOR PARADOXICAL RESOLUTION IN BUSINESS MODEL DESIGN

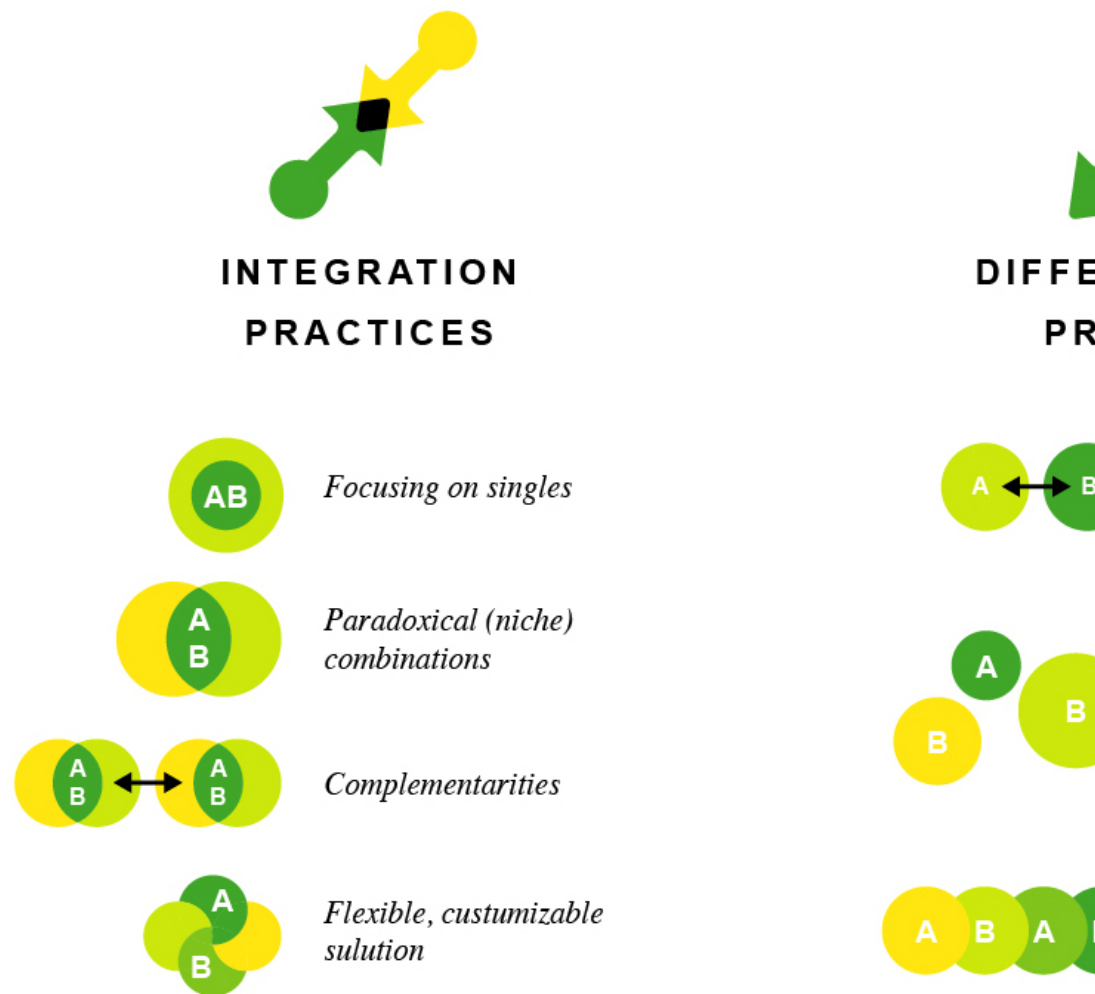


Figure 3.2: Tactics for paradoxical resolution in business model design.

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 complementarities

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 (?). 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, but 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
Focus on single decisions	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)
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)

Tactic	Description	Advantages	Disadvantages	Examples and quotes
Seeking complete understanding so that the solution involves integrating actors, resources, or structures external to the organization.	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)
Implementing flexible structures	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 (?). 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 (?). 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 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, straight-forward 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	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)

Tactic	Description	Advantages	Disadvantages	Examples and quotes
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) 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 (?). 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 (?), and business models as cognitive devices, where those are conceived as malleable configurations in the minds of managers (??).

3.5.2 Synergies and pitfalls in paradoxical business models

We leveraged the paradox literature, in particular *the dynamic equilibrium model of organizing* by ? and ?, 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. ?) 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 danger 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 (?), 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 ? “[...]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 (?), leadership styles (?), or rhetorical practices (?); 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 ?, “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 Berkens 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

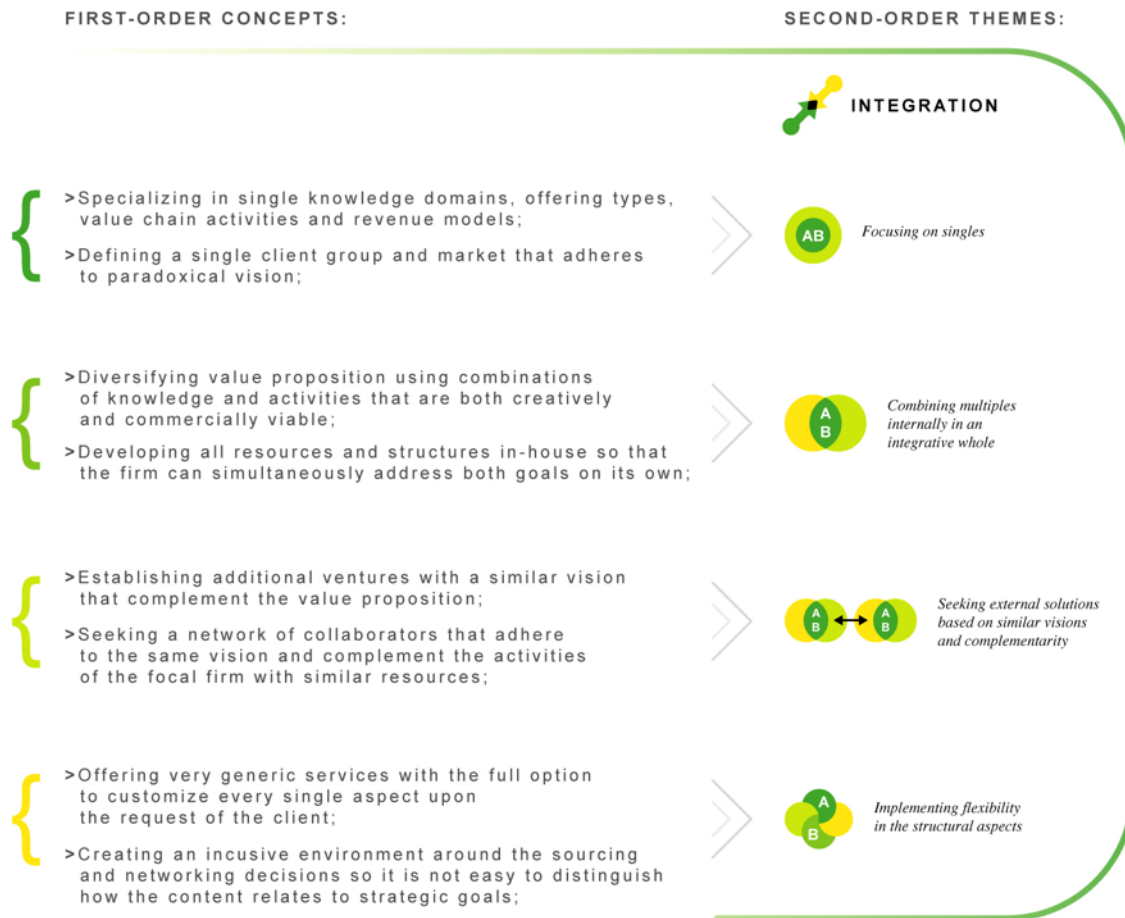
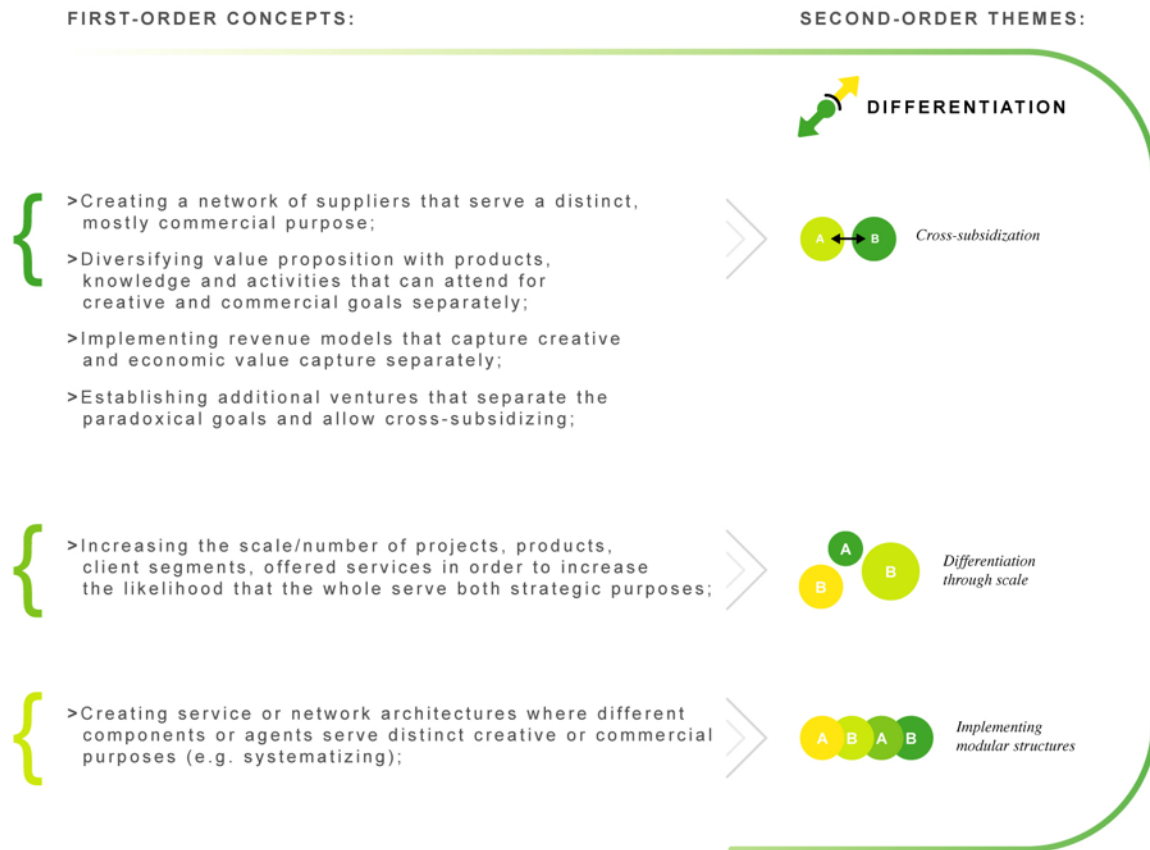


Figure 3.3: Data structure integration tactics.

3.10 Appendix C: Inductive research process and data structure.



References

Chapter 4

KILLING TWO BIRDS WITH ONE BUSINESS MODEL:

UNRAVELING SUCCESSFUL CONFIGURATIONS FOR ACHIEVING CONFLICTING PERFORMANCE GOALS ¹

Abstract. Contemporary firms often have to work towards achieving contradictory performance-criteria, which leads to designing complex business models. Despite the urgency of the topic, little empirical work exists in exploring the workings of business models for dual agendas. Based on prior literature on ambidexterity, paradox management and business model components, we build a model that defines business models as configurations of decisions that aim at either integrating the two conflicting performance goals, or separating them. More precisely, we explore the interplay between five business model level decisions - portfolio differentiation for different aims (?), (paradoxical) client segmentation (?), finding complementary partners (?), multi-sided revenue models (?), and structural venture separation (?). Our study is based on a comparative case survey of business modelling practices of 179 Dutch creative service firms (i.e., design agencies, advertisement firms, architecture firms). Using fuzzy set Qualitative Comparative Analysis (fsQCA), we identify which configurations of the five differentiation strategies are necessary and/or sufficient for performing well in two conflicting domains simultaneously, in our case - creative and business success, and which lead to a misbalance towards either creative or business performance, or both.

4.1 Introduction

”Interviewee: Big clients subsidise small clients.

Interviewer: What value do you get from the small then?

Interviewee: Love.”

– Anonymous interview respondent

The business model has proven to be a useful concept for explaining how firms create value (?) and outperform each other (??). According to the business model perspective, they do so by converting their goals (?) into better-performing configurations of decisions about value propositions, target markets, value creation mechanisms and revenue models (??) 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

¹The previous versions of this paper have been presented in 2016 EGOS colloquium, GIKA 2016, and QCA expert workshop in Zurich, 2017.

of value creation and capture, the literature has been surprisingly over-focused on explaining the economic value creation (?), and very limited attention has been paid to understanding business models in cases where firms have to generate other value than profit.

As recently discussed in various theoretical domains such as paradox theory, institutional logics, organizational pluralism, or triple-bottom line, more and more contemporary firms are compelled to satisfy competing, even conflicting performance criteria at the same time (?). The common examples of other performance goals alongside profit-making include social (?) and environmental missions (?), corporate social responsibility (?), multiple stakeholder satisfaction (?), or creative performance, as in the case of the research setting of this study - the creative service firms (?). 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 (?). The question is then - how can firms build business models that are able to manage conflicting goals simultaneously?

One can find empirical and theoretical propositions on different strategies for managing conflicting goals applicable at the business model level in prior literature on corporate venturing, business models, and paradox management. ? have explored the conditions under which it would be beneficial to create separate ventures for business models having different strategic intents. ? observed that design firms shift between projects aimed at financial goals and employee satisfaction; ? argued that in the context of media companies, portfolio diversification can help firms to tackle the ambidexterity challenge; ? discussed the benefits of separate social and marketing networks in the context of social enterprises; ? examined the use of different revenue mechanisms for different client groups in hybrid organizations.

While the identified strategies undoubtedly can help firms to grapple the challenge of satisfying multiple performance criteria simultaneously, it is unknown how they combine. 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” (?). 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 conceptual 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 studies on ambidexterity, we also include two organization-level variables, namely, venture separation and integrated culture as a variable in our analyses. We study survey data on business modeling practices of 179 Dutch creative service firms. Using fuzzy set Qualitative Comparative Analysis (fsQCA) (?), we examine 1) how the identified differentiation strategies at different business model domains combine for achieving high creative and commercial performance; 2) which configurations can explain performing low on one or both of the conflicting dimensions.

The contribution of this paper is three-fold: 1) The findings deepen our understanding of business models, emphasizing that specific business model elements change their importance in combination with other elements. Our results show the different business modelling paths that lead to success and failure in strategically pluralistic settings; 2) Partially confirming expectations in paradox research, we show that a mix of differentiating and integrating strategies are needed to succeed (and to fail); 3) The study shows 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. ???) and configurational theory (?; @;jh??aMisangyi2017; ?). 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.

###Business models and firm performance

A business model explains how firms “create, deliver and capture value” (? , 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” (? , p. 450).

Studying firms from a business model perspective emerged as an alternative way of conceptualizing and describing how firms do business (?). When compared to earlier perspectives, such as resourced-based view or industrial organization, the business model perspective focuses on “voluntary choices over environmental conditions” (?). 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 (??), 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 create the value proposition.
- *Value capture* describes the financial aspects of the firm’s value mechanisms (???).

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 (? , (?)). This can take place in different ways. Firms can use superior business model designs upon the commercializing of new technology (?). Business models can also be subject to innovation themselves, as firms either create new ways of delivering and capturing value in established industries (??), or respond to the changes in their competitive environments through business model adaptation (?). Some authors have even gone so far to say that the future quest of sustainable competitive advantage lies in business models (?). However, just as most of the strategic literature (?), also the literature on business models has largely ignored the fact that firms might have a purpose beyond profit-maximization (?). Apart from setting-specific studies in fields like social entrepreneurship (?) or sustainability (?), business models are mostly studied as strategic decisions that help to create economic value (?).

4.2.1 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 performance 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