Complex Business Models: Managing Strategic Paradoxes Simultaneously

E-Business Term Paper

6/27/2012

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Declaration
I have written this paper based on the Complex business Model in long range planning vol.43 released 2010 and Authors who researched on this survey so my critics and comments may be similar to the Author’s statement. Intension of writing this paper was to understand and learn the research methods performed by the authors which will be of great help for my Master Program.
THIS PAPER WAS NOT WRITTEN FOR ANY PUBLICATIONS OR SALES.

Sincerely,
Mohamed Gamal Hassan Afifi
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I. Introduction

Sustained organizational performance depends on top management teams effectively exploring and exploiting. These strategic agendas are, however, associated with contradictory organizational architectures. Using the literature on paradox, contradictions, and conflict, a developed model of managing strategic contradictions that is associated with paradoxical cognition—senior leaders and/or their teams (a) articulating a paradoxical frame, (b) differentiating between the strategy and architecture for the existing product and those for innovation, and (c) integrating between those strategies and architectures. We further argue that the locus of paradox in top management teams resides either with the senior leader or with the entire team. We identify a set of top management team conditions that facilitates a team’s ability to engage in paradoxical cognitive processes.

The beginning of Complex Business Models was in the late of 1990’s, when the USA Today CEO and Senior Executives launched a new category of newspapers through the internet. The Online version of the USA Today was published to defend the threat coming Yahoo and AOL Online newspapers. Printed and Online papers differed significantly from each other. Online paper team structure required more communication and interaction between team members to support the dynamic and fast evolving nature of the online stories.

The Contradiction between the two products increased tensions faced by the Leaders. In many scholars, organizations choose the either/or approach by scanning the external environment to decide the organization strategy(Whether Exploratory or Exploitative strategy) or to deal with two strategies separately (Each strategy will be in a different business unit).

USA Today CEO argued that the either/or strategy is inadequate & suggested the success is rooted in adopting “both/and” approach. Leaders facing the contradicting strategies should follow the following process:

1) Dynamic Decision Making
2) Building commitment to an overarching visions and agenda specific goals
3) Actively learning about each agenda and the relationships between them;
4) Engaging conflict.

This process gives the leaders the ability to choose the team structure whether leader-centric or team-centric to apply the previously stated processes.
II. Paradoxical Strategies and Complex Business Models

One of the more enduring ideas in organization science is that an organization’s long-term success depends on its ability to exploit its current capabilities while simultaneously exploring fundamentally new competencies. In this paper we will be focusing on Organizations that are capable of simultaneously exploiting existing competencies and exploring new opportunities.

Exploration/Exploitation are not the only paradoxical strategy that might face organizations, while researches pointed out that there are other contradictions such as Organizations that trying to adopt social with financial strategies while other Organizations that are trying to manage global and local markets.

i. Exploration/Exploitation Paradoxical Strategy

An exploratory strategy seeks to introduce products and services that can define new marketplaces, whereas exploitation seeks to refine and improve products in an existing marketplace. Exploring new opportunities is future looking, involves variance-increasing activities and risk taking and is thus more successfully undertaken in organic, decentralized, flat structures, but exploiting existing products is rooted in the past, involves variance-reducing activities and risk minimization, and thrives in more mechanistic, centralized, hierarchical structures. Organizations having exploration/Exploitation Paradoxical strategy faces main interrelated tensions. Tensions are as followed:

1. Differentiation Vs Integration

Differentiation here is meant to be the subdivision of Organizational structure in to separate units. Units will be responsible for the Exploitation strategy and to deliver customer demands and the other will be responsible for the Exploration Strategy. Researchers found that the Exploration units will be smaller and more decentralized. Therefore these units will be more flexible than the exploitation units.

Integration is meant that the Organization will deal with Exploitation and Exploration on the same unit. The challenge here is how to design Organizational unit where employees can handle both contradicting strategies in the same time.

Later, Researches pointed out that combining Integration with differentiation, where workers can switch between the two tasks. This combination requires a parallel organizational structure that allows employees to switch from routine tasks (Exploitation strategy) to non routine tasks (Exploration strategy) and vice versa. This combination requires managers to determine the right balance between differentiation and integration, as the Exploration and Exploitation strategies will vary over time.

2. Individual Vs Organization

Organizational mechanisms enable ambidexterity, such as formal structures or lateral coordination mechanisms. Conversely, some researches indicates that ambidexterity is
rooted in an individual’s ability to explore and exploit. Organizational mechanisms may be required to enable ambidexterity at the individual level, and ambidextrous individuals may be vital to the usefulness of organizational mechanisms.

3. Static Vs Dynamic

Static means that organizations should set certain configurations to meet its goals. But due to the dynamic market, Static Organizations will need to adopt it’s configurations to meet the internal and external exchanging demands. This will lead us that ambidexterity can only become a dynamic capability if management repeatedly and intentionally orchestrates firm resources. Dynamic capabilities comprise and integrate both static and dynamic components. The interaction of exploitation and exploration is expected to become a full-blown dynamic capability over time. Managing organizations for the simultaneous pursuit of exploitation and exploration may thus be a task of dynamic rather than static alignment.

4. Internal Vs External

This tension is focusing on how Organizations will deal with it’s Exploration and Exploitation strategies. Organizations have a choice of whether to deal with both strategies internally without outsourcing any of it’s activities. Internal dealing with both activities will remove the difficulty of strategic integrations with other independent parties. The other choice for organizations is to externalize some of it’s activities. Exploration Strategies will require the acquisition of external knowledge during the organization research. Externalizing some of the organization activities will lead to more aspiration on the external knowledge which will impact positively on the organization processes. Although Outsourcing might have a good impact on the organization, Exploration activities to other party will lead to the risk of knowing the internal knowledge of the organization which might lead to lose the company core competency. Organizations have the challenge of deciding whether to deal with all of it’s activities internally or to outsource some of the organization activities.

ii. Social Enterprises Paradoxical Strategy

Social Enterprises are on the Complex models where contradictions in it’s strategy takes place. Social enterprises embed multiple contradictory goals around social and financial. Both goals are strategically critical to the success of the social enterprise. What makes social enterprises so challenging to manage is that conflicting goals do not just exist at a high level. It’s not just about social mission versus financial performance. This conflict permeates the entire organization. Tensions mainly that face social Enterprises are:

1. Selection and Socialization
   For example, at DDD, should they hire the most disadvantaged applicants, who may have only a third grade education, or should they hire less disadvantaged applicants
who have higher skills and are more productive? The former approach maximizes the social mission, while the latter approach maximizes the financial mission.

2. **Motivation and Incentives**
   Should Social Enterprise reward people based on financial performance or based on social mission performance? You could reward both, but many actions that would advance financial performance compromise the social mission

3. **Identity**
   Do members (and clients) view the organization as a business or as a charity? These are two different and in many ways incompatible identities.

iii. **Learning Organizations Paradoxical Model**
   Also learning organizations might face some tensions from contradicting strategies. Learning organizations might face contradictions in the following:

   1. Learning and performance
   2. Stability and change
   3. Control and flexibility
   4. Alignment and Adaptability

   In Egypt, there are private learning organizations that might face contradictions. They might face a problem whether they invest more in the quality of the labs or profit. Some of the devices might be expensive to buy, but at the same time it’s useful for learning. So this is also a contradiction where the organization might face whether to invest in the quality or to search for more profit.

   Toyota also faces such a contradiction where they should apply traditional culture and structure or they are more in to innovative culture and structure.

III. **Managing Strategic Paradoxes: Senior: senior leadership team processes and structures**

i. **Dynamic Decision Making**
   Dynamic Decision Making is an interdependent decision making that takes place in an environment that changes over time either due to previous actions of the decision maker or due to events that are outside of the control of the decision make. Dynamic decisions, unlike simple and conventional one-time decisions, are typically more complex and occur in real-time and involve observing the extent to which people are able to use their experience to control a particular complex system, including the types of experience that lead to better decisions over time.
In Complex Business Models, Dynamic Decision making requires from the leader to allocate the existing resources between Exploration and Exploitation strategies. Leaders should know how to move the same team from Current Product to the innovative product and decide the priority for the team whether to focus on the Current product or the Innovative product.

**ii. Building commitment to overarching visions and agenda specific goals**

Leaders working in a complex business Model need to commit to the paradoxical strategies simultaneously. In order to achieve that, leaders have to define the following:

1. A Broad vision for both Exploratory and Exploitive strategies, where employees have to be encouraged and Motivated. In addition Leaders should work on minimizing conflicts and aiming a creative problem solving which will result in Integrated solutions for both strategies.
2. Leaders have to define for each strategy separately clear goals, objectives and metrics to be achieved.

The Analog Device Company is an example for building overarching visions and agenda specific goals. The Analog Device company defined a broad vision for it’s contradicting strategies “Market Leadership through technical innovation & superior customer service”, while it stated a specific metrics and goals for the different agendas. For the Exploitative strategy, the analog device company defined it’s metrics concerning “market share, revenue and profits” while for the exploratory strategy the metrics of the company was concerned on “time to market, product quality and new customers”.

**iii. Actively learning in multiple levels**

Leaders that are engaged in managing paradoxical strategies learn at multiple levels, which will enable them to experiment, take risks and alter routines and strategies. Each strategy has it’s own learning focus, where the exploitive strategy focuses on refinement, execution, selection and choice, we find the exploratory focus on learning risk taking, experimentation, search and variation.

Companies (Titan, Apollo, and Hercules) held offsite meetings for the exploratory business model, and Hercules additionally held a 2 days meeting to discuss the differences between the new exploratory business model and the exploitive business Model.

**iv. Engaging (and encouraging) conflict**

Due to the contradictions between the Exploratory and running strategies, Organizations faces conflicts, which in turn needs different organizational structures and require the recruitment of talented resources in the short term. Management such kind of conflicts required the leader to engage more in the conflict to lucid and learn from the tensions which will help in reducing the emotional stress.
At Analog Device, CEO and COO were having different priorities. The CEO used to care about the big picture and try to find the opportunities. On the other hand, COO was more in the details of the operational efficiency. To overcome this conflict, a sound proof room were built next to the CEO room where fight took place, knowing that they will come out with unified point of view.

v. Team structures - leader centric or team centric

Among the top teams that managed the contradictions between exploration and exploitation effectively, it was found two team structures - ‘team-centric’ and ‘leader-centric’. The first is “Leader-centric.” The individual leader is the integrator and the other senior team members serve as advocates in their specialties. This allows each of the team members to focus on achieving clear, consistent goals, but places a high cognitive burden on the leader. This mode works well when there is trust and good communication among the team and can be facilitated by a trusted advisor. The second is “Team-centric” teams, where the integration happens at the team level. This requires each member of the team to manage cognitive paradoxes and is facilitated by shared mental models and cognitive frames. In this context, conflict is an important tool for managing contradictions as it forces team members to engage directly with the shared paradoxical frames.
IV. Conclusion

Due to the hypercompetitive and fast paced world, Organizations needs both exploratory and exploitative strategies, where improvements for the existing products and development of new products must strive simultaneously. Leaders cannot choose between the two strategies, but they should work more on organizations to effectively do so.

During the research, It was found that there are three types of teams. First is the balancing team which supports the two contradicting strategy simultaneously? Second is the team changing where the team supports to change to the innovative product over the existing product and the last team is the sustaining team where it looks more for improvements for the existing product over the innovative product.

As the CEO of USA Today argued that the balancing team is the most suitable for organizations that compete for a higher market share or even to defend it’s existing market share. Balancing Teams involved dynamic decision making to shift existing organization resources between both products depending on the goals of each product. Also, balancing teams were also associated with increased existing product and innovation performance, compared with changing or sustaining teams.

I further find that balancing both products involves cognitive information processing at the team level that includes differentiating and integrating. By recognizing how the innovation is different from the existing product, top management teams can support this new opportunity without the burden of existing strategies and structures. Integrating identifies the potential for shared resources and synergies between the products.

Finally, The top management can work on both contradicting strategies simultaneously using either the leader-centric where senior leaders makes the decisions with minimal interaction with executives, or team-centric where the executives have to interact more in making the decisions.