



ESCAPING FROM THE EXPLOITATION TRAP BY SHAPING THE DIGITAL FUTURE: HOW CAN AN ESTABLISHED FIRM DRIVE INDUSTRY CHANGES BY EXPLORING AND EXPLOITING CLOUD COMPUTING?

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## ABSTRACT

Even Fortune 500 firms can disappear quickly, because many of them falls into an exploitation trap. Examples show that certain organizations – that manifest ambidextrous features – can avoid the exploitation trap. But, how can they do it? Authors tracked the digital transformation of a Fortune 500 company in order to understand the strategic and organizational challenges and solutions to become resilient and prosperous. A cutting edge example is shown in the paper about how an industry leader can exploit traditional and explore and exploit new industries and markets at the same time. The Authors found that shaping an industry needs a strong top-down leadership, and a strong alignment between markets, strategy and the configuration of the firm.

Keywords: ambidexterity, change, IT

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Even Fortune 500 firms can disappear quickly, because many of them falls into an exploitation trap. Examples show that certain organizations – that manifest ambidextrous features – can avoid the exploitation trap. But, how can they do it? Authors tracked the digital transformation of a Fortune 500 company in order to understand the strategic and organizational challenges and solutions to become resilient and prosperous. A cutting edge example is shown in the paper about how an industry leader can exploit traditional and explore and exploit new industries and markets at the same time. The Authors found that shaping an industry needs a strong top-down leadership, and a strong alignment between markets, strategy and the configuration of the firm.

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# 1. INTRODUCTION

Digital transformation reshaping every industry. Today is the era of the fourth industrial revolution. Exploration of new ideas and territories never been so popular, but exploiting existing businesses is also crucial. The trade-off between exploration and exploitation is known for 25 years (March, 1991), and the real challenge of the managers is to find the right balance between the two (Raisch et al., 2009).

Many firms are exploratory in the early stages of their lifecycles, but become exploiter in the later stages (Hortoványi, 2012, Szabó, 2014). As they become incumbent, they adapt themselves to the norms and rules of an industry which in turn decreases the future ability of adaptation. That is the reason why so many firms fall into an exploitation trap and are unable to get out of it. Only a few firms are able to remain exploratory and as such, shape an industry. These ones are those who are able to remain resilient. These firms are also transforming in the new era, and become ambidextrous.

Ambidextrous organizations are not only able to find the right balance between exploration and exploitation, but even more, they are able to drive internal organizational changes effectively. In this paper a cutting edge example is shown about how an industry leader can exploit the traditional on-premise IT industry and large costumers market and explore and exploit the new cloud computing industry and SME market.

## **2. THEORETICAL BACKGROUND**

### **2.1. The exploitation trap**

As industries evolve many of them become predictable and unchangeable. The adaptation to the environment is very important, but the constant adaptation to the existing factors decreases the future ability of adaptation. According to Burgelman (1991) the change carried out in the strategy is always smaller than the change happening in the environment, therefore the alterations mainly concern the peripheries of the strategy, and there is no change on the core areas. Hence during the reorientation the companies facing the competition rather strengthen the already existing activities instead of looking for new ones. This adaptation paradox leads to exploitation trap in case of many successful incumbent companies.

Child (1972) pointed out that the view, which says that the organisational structure is unambiguously determined by the environmental factors, technological level and other external factors is not correct. The decision makers of the company actively contribute to the manipulation of their own environment, in order to achieve the goals they have set. They either ignore the changes happening in the environment or they alter the organization. In this interpretation the proactive behaviour of the company is determined by the leader or dominant coalition.

Contradicting Child's view, Burgelman (1991) represents the view that strategy is based on the current technology, economic and cultural factors and adapting to these, the task of the leader is to create such a strategy that enables the organisation to attain further success. Therefore the organisational structure defines the competencies of the organisation and determines its aims. Strategy consists of technical, economic and cultural regulations. These regulations serve the purpose of maintaining the character of the organisation. He uses the theory of population

ecology for strategy building. During the selection, the participants on different levels perceive strategy differently therefore variations appear. The objectives set in the strategy cannot be achieved without internal selection systems.

Thus the primary task of the top management is managing the administrative tools (strategic planning, control system, incentive systems), developing cultural (behavioural norms) mechanisms and selection systems.

## **2.2. Managing changes**

Change is a continuous phenomenon both nowadays and throughout history, but the pace of the change seems to accelerate. Change is an unavoidable result of innovations, whose effect and impact are often unimaginable and underestimated by many people, included those individuals and organisations, too, from whom the innovation derives. Managers want to govern this process better and more proactively, but there are still several unanswered questions (Schendel and Hitt, 2007):

- How can and has to be change consciously (actively) managed, while one enterprise innovates, and perceives the innovations in the industry?
- How can the effect of innovations be tracked (e.g.: in case of organisational structure and business model)?
- What are the primary tasks in the preparation of the enterprise for the changes?
- What change forms are reasonable and effective?
- What obstacles might change run into and how can these obstacles be avoided or how can we overcome them?

Change management is a consciously managed activity, during which the enterprise gets from a configuration to another. The recognition of the strategic changes and finding the adequate answer to those bring the members of the change management team into an especially hard task. The corporate environment supposes the continuous revision of the strategy and the operation, which has a significant effect on the stakeholders of the organisation. During the change management processes, the proper combination of the strategies, the creation of the favourable reception of changes and the freezing of the results are critical factors.

The start and the maintenance of the changes is not an easy task, because for this the (artificial) maintenance of the creative tension is needed in the organisation. In order to maintain the creative tension, the vision has to be utilized, learning has to be directed and planning has to be given power (Mintzberg et al. 1998). Hindering factors in the recognition of the necessity of changes and in the creation of sense of urgency (Kotter, 1999):

- absence of a major and visible problem or crisis,
- too much happy talk of the senior management,
- low overall performance standards,
- performance measurement system focusing on wrong metrics,
- abundant resources,
- operating in silos with organisational structures that focus employees on narrow functional goals, and the underestimation of the power for denial that turns a blind eye to problems
- not aware of how suppliers and customers actually view performance,
- low confrontational culture.

According to Clemmer (1995) changing and managing are precluding concepts and changes don't have to be controlled manually, but the frameworks have to be set, and then change proceeds by it. Change can be ignored, resisted, reacted, exploited or induced, and the necessary frameworks and configurations have to be developed accordingly.

During change it is important, that it is very difficult to change everything at the same time, and it is not advisable either. Based on the recommendation of Mintzberg et al. (1998) we look for the best among the new, and keep the most useful among the old. The change strategy of Dickhout et al. (1995) is much more pragmatic than this general recommendation:

- Evolutionary/institutional building: line managers direct the continuous change,
- Jolt and refocus: change of the management is necessary,
- Follow the leader: cutting the side-activities in order to have fast results,
- Multifront focus: fast results stabilize the organisation, that can be followed by the multifront focus, changing many factors at the same time,
- Systematic redesign: ad hoc workgroups, but planned change,
- Unit-level mobilizing: the incorporation of the ideas of the middle management and the workers.

Changes can be induced top-down or bottom-up. Example for the top-down induced change is the drama of Tichy and Sherman (1993) in three acts, during which the prologue is the development of the new global playing field, and the acts are the processes of the organisation: (1) awakening, (2) envisioning and (3) rearchitecturing. The epilogue refers to the stability of changes, that history repeats itself.

Kotter (1995: 61, 1999) gives a more detailed guidance for the implementation of top-down changes:

- Establish a Sense of Urgency
- Form a Powerful Guiding Coalition
- Create a Vision
- Communicate that Vision
- Empower Others to Act on the Vision
- Plan for and Create Short-Term Wins
- Consolidate Improvements and Keep the Momentum for Change Moving
- Institutionalize the New Approaches

Beer et al. (1990) examined, why change programs aren't productive. They found the problem in starting changes from too high above. Successful changes were typically started by a local manager, which was supported from the top management in order to achieve success. The successful elements were spread throughout the whole firm:

- the common diagnosis of business problems helps the commitment to change,
- common vision,
- consensus and resources,
- expansion of revitalization (as possibility),
- rooting,
- monitor the revitalization and correct the mistakes.

### **2.3. Ambidexterity**

A company can be successful on its existing operational areas and can exploit them. When solving crises the successful embracement of new possibilities has a key role without the destruction of the existing areas. Companies meet a lot of “creative destruction’ (Schumpeter, 1980) ideas during their explorative activities; however the real challenge for them is not the pure implementation of these ideas, but the successful running and construction of the existing and new fields at the same time. Summarizing the concept of ambidexterity, it ensures success for a company on its existing fields (exploiting) and on its new business fields (exploring) at the same time.

The topic of ambidextrous organisations is more and more popular among researchers who deal with strategy. The key question of it is the joint treatment of efficiency (exploitation) and effectiveness (exploration). (Tushman and O'Reilly (1996, 2002), O'Reilly and Tushman (2004), Raisch et al, 2009, Gibson – Birkinshaw, 2004).

The ambidextrous organisations are able to manage successfully their existing activities and new products, services and processes at same time. The ambidextrousness can be realized in several organisational structures, in functional, cross-functional, spinout or ambidextrous structures, too (O'Reilly and Tushman, 2004).

The majority of the enterprises struggle for the balance of the efficiency and innovation. The enterprises can gain efficiency in short term, if they replace their costly and unforeseeable activities by cheap routine processes. Though this exchange is extremely dangerous, because the organisation loses its long term adaptation ability. The more routine processes there are, the less flexible the organisation will be. Therefore sometimes based on strategic consideration,

disturbance needs to be created artificially in the organisation maintaining the creative tension (Raisch et al, 2009).

The trigger of the creative tension might be the open business model in which the innovations are come from inside as well as from outside of the traditional organisational borders. At the same time, there is the possibility to spin off those innovations that are not realizable in the parent organisation, but are viable/profitable otherwise (Chesbrough, 2002, 2006).

#### **2.4. Exploiting: The traditional way of using IT**

The traditional way of using Information Technology (IT) systems within companies was 'buy and build your own'. The company purchases and installs hardware and software elements to run the business applications required to support company's business. Hardware elements include servers and storage; software elements include operating systems, security solutions, database and middleware software and business applications. The hardware is usually installed within the premises of the company in server room(s). The company provides infrastructure for the server room(s): electricity, air conditioning, access control, etc. The company's IT department is responsible for installing and maintaining the hardware and software stack, applying new patches and upgrades. This task can be partially or fully outsourced to an external contractor.

In enterprise environment, the purchased software requires implementation, and usually must be integrated with other software solutions. For complex implementations, the implementation and integration cost can be significantly higher (2-5 times higher) than the cost of the software. This task can be done by the company's own IT resources, or contracted to external parties.

IT departments of customer companies play a key role in purchasing, implementing and maintaining IT solutions. Usually they own a substantial budget to fulfill this role.

Customers purchase the right to use the software from software vendors. The software purchase can be conducted directly from the vendor, or through its partners and/or distributors. The right to use the software can be perpetual or term license. In case of perpetual license the customer purchases the right to use the software without time limitation. On the contrary, term license allows the customer to use the license for a limited period. (I.e. for 1 year) In both cases, the customers usually install the purchased software on its own servers within their own premises (company building). Hence, this model is called on-premise (on-prem) model.

Traditional software companies built their success in the past on on-prem software, such as Microsoft, SAP, IBM and Oracle.

The benefit of the on-prem model is the customers control its own IT. The hardware is within their building, the software can be accessed by only those internal and external experts the customer gives permission to do so. (Assuming the access rights is well managed, and system is properly protected against hacking.)

The disadvantage of the on-prem model is that the burden of managing the IT system is on the user company. The maintenance and upgrade of different parts of the HW and SW stack is a complex and costly task. Even if the IT department works with contractors and outsources some of the tasks, the ultimate responsibility remains with the company. Moreover, on-prem IT systems require significant capex investment, and they get depreciated within a few years as technology develops at fast pace.

## **2.5. Exploring: The new way of using IT**

The development of high speed networks and software solutions at the beginning of the 21<sup>st</sup> century allowed companies to use IT differently. Companies don't need to have servers within

their premises anymore; they can use IT services from remote servers. It is not necessary to store the data or run the business applications from their own servers; they can use external providers for that and access the services through the internet. This model is called 'Cloud computing' (Borko, 2010).

A popular analogy for cloud computing is the way electricity is being used. Companies don't generate their own power, but buy the electricity from power companies. The user doesn't care how and where the power is generated and transited to its premises. Companies use electricity as commodity, and pay a reasonable monthly fee for the service, based on how much electricity they use. Cloud computing has the same promise: why should companies bother with server rooms, complex hardware and software? Instead they should be able to buy IT services - what they need to run their business - as a service.

Cloud computing is a very broad term and includes different services. Usually 3 major services are differentiated within cloud computing (Baltatescu, 2014):

- Infrastructure as a service (IaaS)
- Platform as a service (PaaS)
- Software as a service (SaaS)

The benefit of cloud computing is that it addresses the key weaknesses of the on-prem model. Customers don't have to deal with the complexity of the IT systems, the cloud provider does that. The cloud provider builds and manages the data center(s), purchases and maintains the hardware and software, and ensures security to protect the system against hacking and intrusion. Customers pay for the service monthly, quarterly or annually, therefore a no need for major capex

investment from their side. The customers usually don't know - and usually don't care - where exactly the data is stored and computed, it is somewhere in the 'cloud'.

Contrary to on-prem IT solutions which are usually purchased and controlled by the IT department of the customer, cloud solutions often purchased by non-IT functional areas. For example, a cloud solution to monitor user interaction about a company's product on Facebook and Twitter can be considered as part of the marketing activity of the company, and as such purchased by the marketing department. Similarly, a talent requisition cloud solution (recruitment) can be purchased by the HR department.

Cloud models become very popular during the past years ([www.statista.com](http://www.statista.com), 2016). New vendors appeared on the market, and grew their business significantly. Some of the leading cloud providers: Amazon (Amazon Web Services), Salesforce.com, Workday, Dropbox.

The traditional on-prem software companies are also realized the potential in cloud computing, and started to re-position themselves as cloud provider. Microsoft, SAP, IBM, and Oracle are all actively investing into cloud solutions are growing their cloud business.

## **2.6. Research gap and research questions**

The IT Services and the Software industries are predictable. The malleability of IT Services industry is less than the malleability of the Software industry, but even less than the malleability of the Internet Software and Services industry. The challenge of the Internet Software and Services industry is its unpredictability (Reeves et. al, 2012).

Exploiting predictable markets and industries are essential for the incumbents, but it may lead to exploitation trap. As the industry declines, these firms can disappear. How can an incumbent firm escape from the exploitation trap?

Exploring new markets and industries may contribute to the longevity to the firm, but can be painful and costly in the short term. In many cases it is even uncertain. How can an established firm drive industry changes by exploring and exploiting new markets and industries?

Only a few firms are shaping the cloud computing industry, those whom resilient and powerful enough. These firms are also transforming in the digital era, how they do it?

### **3. QUALITATIVE RESEARCH METHODOLOGY**

We tracked the digital transformation of a Fortune 500 company in order to understand the strategic and organizational challenges and solutions of the phenomenon. The company subject to this research is a multinational IT company, has been a major player of the global on-prem software market, with customers and subsidiaries in large number of countries.

The key target market for the company is the enterprise market, large customers from banking, telecommunication, manufacturing, retail, education, healthcare and public sector. Small and medium enterprises (SMEs) are also target segment for the company; however, the majority of the revenues are generated with enterprise customers.

We used qualitative research methodology to answer the main questions of the research. We used multi-level approach in order to get a better insight of different stakeholders of the company, and wanted to get to know a detailed opinion of every interviewee about the changes of the company.

- What are they thinking about the new way of using IT: cloud computing?
- How good are the new products in cloud?
- How important are the traditional on-prem products?
- How did the environment change over the years?
- Which are the main economic, social and technological trends?
- What are the characteristics of market competition?
- How do the main competitors act?
- Which are the main directions of strategy of the company?
- How did the structure of the company change because of the new way of thinking?
- Which are the motivational factors for maintaining the changes within the company?

According to Szabó (2014), the aim of qualitative research is that the researcher collect data about a specific topic through the thoughts of local actors with deep consideration and empathic understanding. Qualitative research is an intensive and long-term investigation about a specific area or situation (Miles – Huberman, 1984), which was important in this case, because we wanted to get to know the views, the attitudes and the feelings of interviewees during the research. We took in-depth interviews, which have more advantages against focus group interviews:

- the interviewees are not under social pressure;
- they do not want to meet the expectations of the group;
- they do not want to identify themselves with the expectations of the group (Malhotra, 2008).

The essence of in-depth interviews is that it proves the answers and statements of interviewees with specific parts of the interview (Solt, 1998). We did not compare the interviews with each other, but we proved the conclusions of each answers with other interviews, and we developed the system of opinions. Based on Solt's (1998) guidelines, we did not set up hypothesis about the interviews, and we did not insert the answers in our existing schemes to avoid processing errors.

We prepared 16 in-depth interviews with experts to answer the research questions in sufficient detail. In the selection of interviewees, we tried to diverse the employees by the following aspects: position, line of business and territory.

Considering the positions of the interviewees, we covered many levels of the organizational structure:

- Cloud Programs Leader;
- Consulting Director;
- Digital Champion;
- Director;
- Finance Director;
- Sales Manager;
- 4 Sales Representatives;
- Senior Director, Public Sector;
- 2 Senior Vice Presidents;
- 3 Vice Presidents;

We interviewed employees from various lines of business, such as application sales, cloud digital, cloud customer success, finance, consulting, public sector business development and technology sales.

Most of our interviewees are responsible for ECEMEA (East and Central Europe – Middle East – Africa) region (4 people), but there are some employees from other territories, like EMEA (Europe – Middle East – Africa), Hungary (4), Hungary and Slovakia (1), MEA (Middle East – Africa) and North Africa – Levant.

We collected and analyzed data in a parallel, iterative way (Miles – Huberman, 1984), therefore we have recorded the interviews and we have taken notes during them to ensure the complete data collection. After the interviews, we coded the answers based on contingency theory:

- Environment: PESTEL (political, economic, social, technological, environmental, legal), Porter's six forces (competition, new entrants, buyers, suppliers, substitutes, complementary products), SWOT (strengths, weaknesses, opportunities, threats);
- Strategy: value proposition, biggest challenges, growth directions, competitive strategy, first mover strategy, strategic alliances, learning and development;
- Structure: changes of structural factors (hierarchy, coordination, collaboration);
- Behavior: personal and organizational motivational factors;
- Performance: control processes, performance measurement.

The code structure ensures the comprehensive analysis of the interviews. We can understand the changes through contingency theory because of the interaction of its factors.

## **4. RESULTS**

### **4.1. Exploring a new industry: Cloud computing in the company portfolio**

Initially, the company was not amongst the pioneers of the cloud market therefore it didn't have the first mover's advantage. Around 2010 when other vendors started to grow their cloud business and cloud become 'hype', the company had strategic choices to make: Invest or not into cloud business.

Although it seems reasonable for a traditional software vendor to follow the market trend and move to the new cloud market segment, such direction raises potential problems as well.

- New cloud products can disrupt the existing high margin on-prem business, and cannibalize on-prem revenues. If the overall market does not grow, cloud solutions will take business from on-prem. Shouldn't the company focus on keeping its strong on-prem position, and compete with the new cloud rivals?
- To offer cloud products which compete with the company's own on-prem portfolio can confuse customers.
- In most cases, perpetual on-prem software is paid when purchased. This provides the company with strong cash flow. On the contrary, cloud solutions are paid over time. The average estimated length of a cloud contract is 3 years; it means the revenue and the cash flow will be distributed in 3 years. However, the investment cost associated with developing the cloud product and building a data center occurs at the beginning. While the cost of the physical data center will appear in P&L as depreciation cost over years, the cloud software development cost hits the P&L expense line immediately. This means that

mid-term profitability and cash flow of the company will be negatively impacted by selling cloud vs selling on-prem.

- In 2010 cloud was not a proven technology; it could have been a dead end direction as well. Redirect investment from on-prem portfolio to cloud was a risky decision. The existing need of the mainstream customers was not cloud, but on-prem.

– Insert Figure 1 here –

There could be two scenarios for the company regarding revenues in case of selling only on-prem products (Figure 1). On one hand, cloud products of other companies can cannibalize on-prem revenues. On the other hand, the company could maintain a slow growth of on-prem revenues, if top management focuses the resources on that.

– Insert Figure 2 here –

Figure 2 shows the potential revenues of cloud solutions compared to the growing on-prem revenues. On-prem revenues are two-times higher than cloud revenues, but we did not take into account the potential of cloud solutions. Because it is a push market, and the company try to meet the latent needs of customers, they use a correction factor for cloud revenues (multiply with three

the exact numbers) to show the growth opportunities. In that case, the worst cloud revenue scenario also reaches the higher on-prem revenue (Figure 3).

– Insert Figure 3 here –

The company realized the importance of cloud computing around 2010 and started to invest into the cloud business. The investment happened in two ways: organic growth and acquisitions. In order to organically growth into the cloud business the company invested into several data centers, and developed new software modules exclusively for cloud. Parallel to the organic growth, the company acquired several companies which had cloud solutions and expanded its cloud portfolio quickly.

As the cloud business become significant, the company started to report separately its on-prem and cloud revenues from 2012. In 2012 cloud revenue represented 5% of the company's new license sale (on-prem and cloud combined) and this grew to 23% by 2016.

#### **4.2. Top management driven strategy change**

By offering cloud services, the company has expanded to a different market segment. On the cloud market customer needs are different as well as the competitors. Sales cycles are shorter; the average contract size is smaller. The buyers from customer side are different: cloud solutions often purchased by non-IT department.

The company subject of this research had experience and success in selling large and complex on-prem solutions primarily to the IT department of the customers, faced a challenge. It had to deal with smaller size contracts, less complex solutions, work with different departments of the customer, and compete with different firms than before.

Parallel to the growing cloud business, the company had to keep the on-prem business running to ensure stable revenue flow. When the cloud business started to become significant, the company had two options to structure its revenue generating sales force:

- Establish a new business unit to exclusively sell cloud solution, and leave the on-prem sales within the existing sales business unit
- Add the cloud product to the sales portfolio of the existing sales business unit.

As 16<sup>th</sup> interviewee said: “there was a debate in terms of this choice, which was a mental question.” The company selected second option, and did not create a separate business unit for the cloud business. Instead, added the cloud product to the portfolio of the existing sales force, and allowed and motivated the sales team to sell both cloud and on-prem products to customers.

In order to provide support the sales force, the company created different team of product and business development experts to focus exclusively on cloud business.

As the interviews with company employees revealed, the readiness of the market for cloud solution was not and still not homogenous. There are differences based on geography, customer segment (enterprise vs. SMEs) and industry. There is broad adoption of cloud solution in the USA, Western Europe and in the Middle East, while customers in Easter Europe and Africa are moving slower to the new way of IT.

SMEs are more open to move to cloud than large customers, because they do not have resources to build and manage their own IT system. Some industry segment, such as Public Sector customers are more concerned with security problems and data residency issues than others.

The company was not the first mover to the cloud market, and it has consequences for the company on developed markets where cloud competitors already have a strong presence. In countries where the market is less developed and the cloud adoption is less mature, that disadvantage is not that significant: other cloud vendors do not yet have significant business either.

But there are many competitive advantages of the company that the interviewees mentioned:

- data centers are all over the world;
- complex, integrated, end-to-end solutions in cloud;
- meet with the requirements of the local markets and able to handle small countries better;
- one of the most secure companies;
- strong sales force and next generation sales approach;
- strong back-office and customer care system;

However, the company's strategy is to actively promote cloud across all geographies, customer segments and industries. In some segments the company responds to customer needs (pull mode) and in some segments the company drives the customers to cloud (push mode). This approach requires 'evangelization'; convincing customers that they should not invest into on-prem solution today because that will not provide them with modern, agile and flexible IT system in the future.

According to 8<sup>th</sup> interviewee: “the company is in push mode on the market, the vision of the top-management is that every second we try to sell on-prem solutions is wasted. If the customer definitely want to buy on-prem solutions, we give them cloud solutions too, as a present.” But the 6<sup>th</sup> interviewee said that “it seems irrational how the company acts, because there might be some on-prem markets which cannot be replaced with cloud solutions”.

### **4.3. Aligning the organization to the new strategy: Changes in field sales**

The change from on-prem to cloud required major changes in the field sales organization. Sales reps had to learn the new products, the new way of selling those products, and the new competition. Such significant change always requires management intervention and drive.

As described earlier, in many cases the company was not ‘pulled’ by customers to sell cloud products, but ‘pushed’ the cloud solutions on customers in anticipation of the changing customer needs in mid-term. Therefore, the drive for change was not bottom-up but top down. The top management of the company realized the need for change in strategy earlier than the lower levels did. The top management started to drive the change, and used various management methods to drive the change through the organization:

- Communication – the top and later the middle management focused its external and internal communication on cloud messages. What is the company strategy in cloud and why it is important for customers?
- Financial incentives – the commission system for the sales reps was changed to motivate them to sell cloud products. Multipliers were implemented in commission calculation, and

the sales reps started to earn two to four times more commission by selling cloud products than on-prem.

- Training – the company provided several days of training each year for the sales force, and those training were only focusing on the new cloud portfolio. According to the 9<sup>th</sup> interviewee, “trainings are the platforms to communicate a clear and strong direction for the company and the employees”, but the 7<sup>th</sup> interviewee thinks that “these trainings are 3-day-long brainwashing events to sell cloud solutions”.
- Re-defined and simplified internal processes to support the cloud business.

Using the above listed methods lead to fast change of the mindset of the sales force, and as a result the portion of the cloud revenues grew with fast pace. This was a significant success, taking into consideration that tens of thousands of sales, support and operational employees were involved in this change process. The company’s internal culture and policies was crucial to this fast change, and allowed that major change in relatively short time period.

The company streamlined and centralized internal processes at the beginning of 2000’s. As an example, 15 years ago the commission plans for sales reps were designed and prepared by individual county operations of the company. Country managers and country finance directors had the power to design compensation plans based on their priority. For example, some compensation plans included several KPIs, and some were based only on revenue generated by the sales rep. As a result of the streamlining and centralization efforts, the compensation plans today are designed by the headquarter team and produced by shared service centers globally.

All sales reps in similar positions have the same compensation scheme (they get commission in the same way) across all countries where the company operates. This centralized system allowed the company to change the commission plan for all sales reps from one fiscal year to another to prefer cloud sales: there was no need to convince middle management and country managers why this change is necessary. Moreover, there wasn't complicated process to work with local finance and HR operations in dozens of countries to change the commission plans. Based on top management decision the shared service centers produced the new commission plans for all sales reps globally without interaction of middle management and country operations.

This streamlined operation made it possible for the top management of the company to drive deep changes quickly and effectively across the large global organization.

#### **4.4. Exploring and exploiting new target segment: SME customers**

The company traditionally was dominating the high-end of the market, focusing on large customers. With the growth of the cloud business, the mid and small size customers also become large potential segment for the company. Due to lack of their own IT staff and free cash available for CAPEX investment, SME customers have large demand for cloud solutions. The company made a decision to build a large sales team, focusing only on SME customers across Europe, Middle East and African territory. It announced to hire 1400 new sales representatives to address the SME segment.

The traditional sales force – working mainly with high-end large customers – was field based sales force: sales representatives were located across the territory to be able to regularly meet customers and interact with them. The field sales model is effective for large customers and large deals, but expensive. This model can't work effectively for SMEs.

The company decided to adopt a different model for the sales unit targeting SMEs: created a couple of telesales centers across EMEA. In each of those centers there are several hundreds of sales representatives working with SME customers using modern ways of remote communication (telephone, email, chat, vide calls, social media), supported by latest technology. The sales reps in those centers can deliver live demos to customers and present proposals from thousand kilometers away.

The profile of the sales reps in the telesales centers is different from the field sales. In field sales the reps are having several years of experience (sometimes 10+ years); in the telesales centers many of the reps are new graduates from university. Young and dynamic telesales reps don't have problem with mindset change from on-prem to cloud – most of them started to work in the cloud world.

As 14<sup>th</sup> interviewee said, that “we build a new-generation sales organization with hiring young freshly graduated people, who can act as digital marketing campaign agents”, and the 15<sup>th</sup> interviewee confirm the trend of the changing ways of communication: “in 2014, only the 30% of communication with customers took place by phone, in 2016 it's 80% and in the future it could be 100%”.

## 5. SUMMARY

Exploitation trap used to be a common mistake for many firms. Nowadays, the digital transformation is reshaping every industry. However it was uncertain, why some firms are able to lead this transformation and take full advantage of it, as well as to avoid the exploitation trap.

We examined the following research questions: How can a firm escape from the exploitation trap? How an established firm can drive industry changes by exploring and exploiting cloud computing?

In order to answer the research questions, a major player in the cloud computing industry was selected and closely monitored through multi-level approach in order to track down its digital transformation.

The case study highlighted that the following actions needed to get over the exploitation trap:

1. exploring a new industry
2. top management driven strategy change
3. aligning the organization to the new strategy
4. exploring and exploiting new target segments

This transformation was enabled by

- a change oriented organizational culture: in the past 15 years a major organizational change was carried out in every 2-3 years,
- strong leadership: clear vision and direction
- strong and aligned support systems: structural and rewards systems

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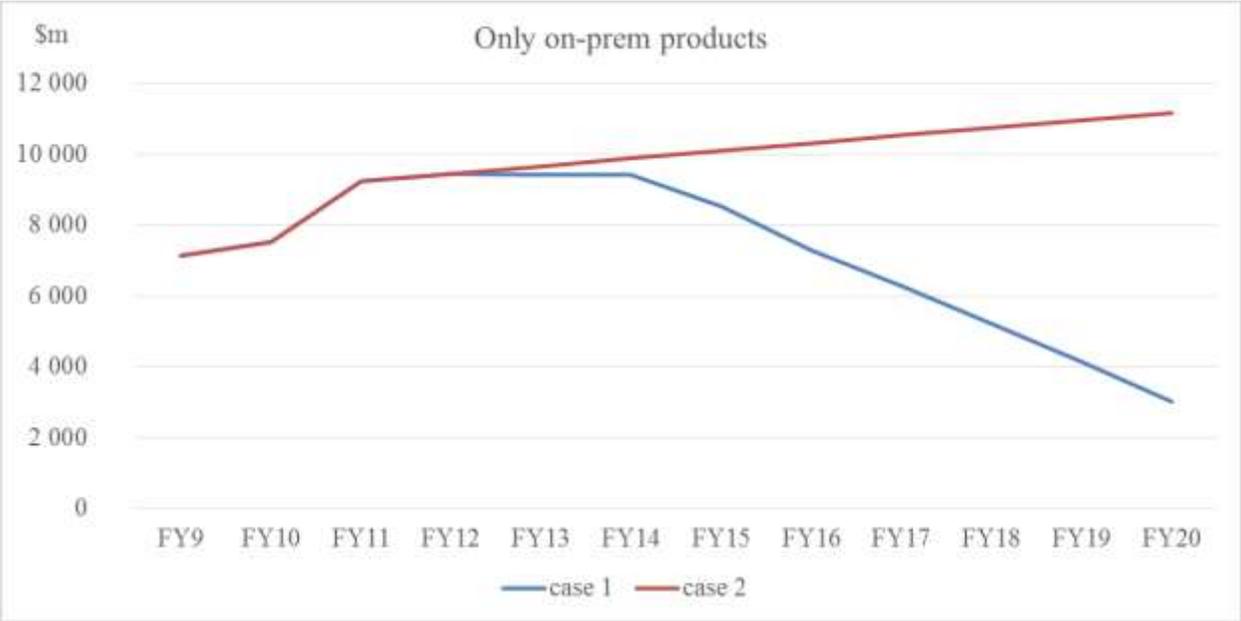
## 7. TABLES

**Table 1: List of interviews**

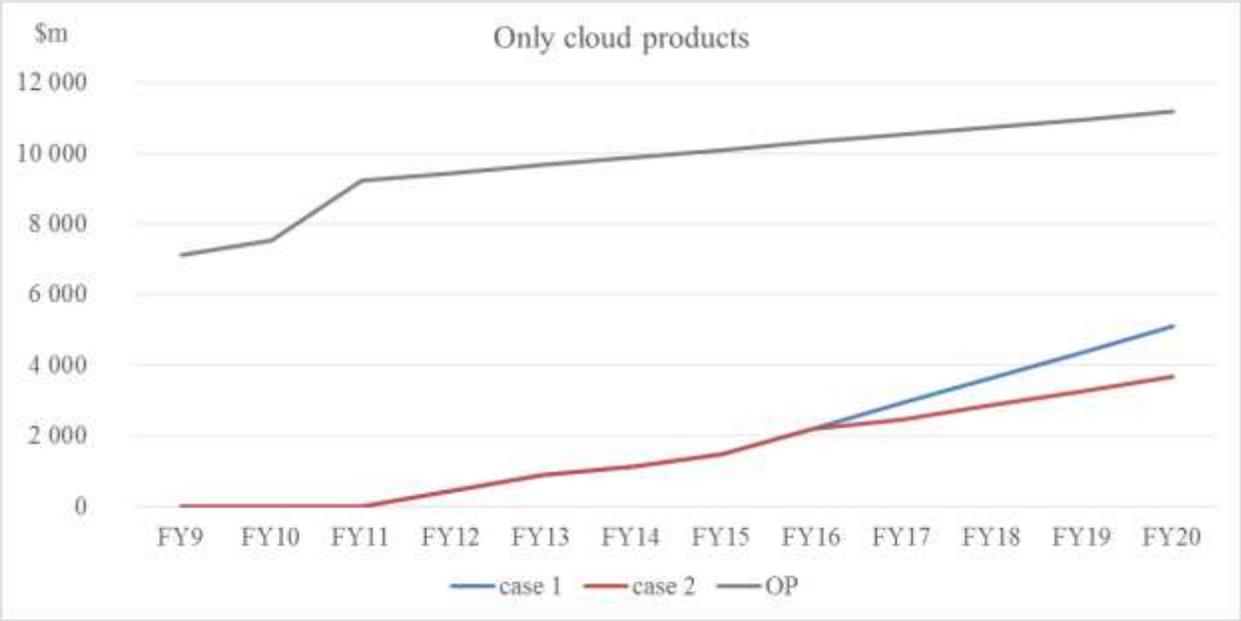
<i>Number</i>	<b>Position</b>	<b>Line of Business</b>	<b>Territory</b>
<i>1<sup>st</sup> interviewee</i>	Senior director, Public Sector	Public Sector Business Development	ECEMEA
<i>2<sup>nd</sup> interviewee</i>	Senior Vice President	Applications Sales, Named Accounts	ECEMEA
<i>3<sup>rd</sup> interviewee</i>	Director	Public Sector Business Development	ECEMEA
<i>4<sup>th</sup> interviewee</i>	Sales Representative	Technology Sales, Named Accounts	Hungary
<i>5<sup>th</sup> interviewee</i>	Digital Champion	Technology Sales	ECEMEA
<i>6<sup>th</sup> interviewee</i>	Consulting Director	Consulting	Hungary
<i>7<sup>th</sup> interviewee</i>	Finance Director	Finance, Application business	ECEMEA
<i>8<sup>th</sup> interviewee</i>	Sales Representative	Applications Sales, Named Accounts	Hungary, Slovakia
<i>9<sup>th</sup> interviewee</i>	Vice President	Cloud Customer Success EMEA	EMEA
<i>10<sup>th</sup> interviewee</i>	Cloud Programs Leader	Technology Sales	MEA
<i>11<sup>th</sup> interviewee</i>	Sales Representative	Digital, Application	Hungary
<i>12<sup>th</sup> interviewee</i>	Sales Representative	Applications Sales, Named Accounts	Hungary
<i>13<sup>th</sup> interviewee</i>	Sales Manager	Applications Sales, Named Accounts	North Africa, Levant
<i>14<sup>th</sup> interviewee</i>	Vice President	Digital, Technology	ECEMEA
<i>15<sup>th</sup> interviewee</i>	Vice President	Digital, Application	ECEMEA
<i>16<sup>th</sup> interviewee</i>	Senior Vice President	All license	ECEMEA

# 8. FIGURES

Figure 1: Revenues of the company, in case of selling on-premise products only



**Figure 2: Revenues of the company, in case of selling cloud products only (compared to the on-premise revenues)**



**Figure 3: Revenues of the company, in case of selling cloud products only multiply with 3 for correction (compared to the on-premise revenue cases)**

