

# ORGANISATIONAL METAMORPHOSIS THROUGH BALANCING ON A TIGHTROPE: IDENTIFYING TENSIONS OF AND BUILDING BALANCING ROUTINES FOR IDENTITY CHANGE

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## ABSTRACT

**Purpose:** This article attempts to 1) identify tensions a manufacturing company faces when moving from a product provider towards a smart solution provider and 2) explicate how to build organizational routines to manage those tensions effectively.

**Design/Methodology/Approach:** The study utilizes an extended, in-depth, longitudinal single case study method to capture a process in which the selected case firm is transforming its product-based business logic towards smart solution-based business logic. The explorative case study approach combined with qualitative enquiry provides a thick description on the key tensions and balancing routines.

**Findings:** The study identifies different type of cognitive and behavioural tensions that are further classified into five dimensions: 1) short-term vs. long-term target setting, 2) tailored vs. standardized product-service systems, 3) product vs. customer mindset, 4) integrated vs. separated organizing, 5) exploitation vs. exploration in innovation. Associated balancing routines regarding managing tensions are identified.

**Originality/Value:** This study analyses further balancing routines and coping practices a firm develops to address tensions stemming from firm's identity change. These routines and practices are helpful to understand better how to navigate these complexities in practice.

**KEYWORDS:** Dynamic capability; routines; organizational identity; digital servitisation; smart solutions; organizational metamorphosis

## 1. INTRODUCTION

Manufacturing companies are increasingly engaged in services and software to generate a competitive edge and differentiate from other manufacturers in the B2B markets (Cusumano et al., 2015). This strategic change, however, is far from easy initiative as this change affects firm's identity (Huikkola et al., 2022a), power position (Porter & Heppelmann, 2014), business model components (Sjodin et al., 2019), capabilities (Ulaga & Reinartz, 2011), activities (Rabetino et al., 2015), routines (Immelt, 2017) and even decision-making styles (Huikkola et al., 2022b). Strategic change thus creates tensions (Kohtamäki et al., 2019; Visnjic et al., 2022) and rigidities (Lenka et al., 2018) within a firm. These tensions can be paradoxical by their nature (both-and approach) or contain trade-off elements such as dilemmas (either-or approach) (Visnjic et al., 2022). Furthermore, tensions can be considered wicked problems (almost impossible to solve because of their complexity) or dilemmas (dilemma can be solved but often requires counterintuitive business decisions and managerial practices; see Christensen et al., 2018).

To manage tensions regarding the strategic change, they need to be identified and categorized. Typical tensions identified in the management literature are related to belonging, learning, organising, and performing (Smith & Lewis, 2011). In the servitisation studies (e.g., Kohtamäki et al., 2020), these tensions have been categorized as follows: 1) effectiveness in the solution customisation vs. efficiency in production, 2) building a service and client orientation vs. maintaining an engineering and product mindset, 3) integrating products and services under one roof vs. separating services and products structurally, and 4) exploring innovation in solutions vs. exploiting product innovations. Based on existing servitisation studies regarding tension management, there exists different management

practices and routines to manage them in practice. Kohtamäki et al., 2020 discuss developing coping practices that help manufacturers to balance these paradoxes whereas Visnjic et al., (2022) identify different sequences and evolution of tensions and how manufacturer develops and establishes new routines to avoid their escalation. Lenka et al., (2018) discuss microfoundations and how individual actions can help manufacturers to overcome organizational resistance.

Despite these studies about tension management in service transition context, more is needed to know how managers manage these tensions in practice and what types of routines and practices they employ to successfully pursue such a strategic change. This article thus contributes to the extant servitisation literature of organisational tensions by shedding light on the managerial routines and practices that help to manage (inevitable) tensions stemming from strategic change from products to smart solutions.

## **2. THEORETICAL BACKGROUND**

### **2.1 Digital servitisation and transition to smart solutions**

Strategic transition from selling products to developing, selling, and providing smart services and solutions has been coined *digital servitisation* (Kohtamäki et al., 2021; Paschou et al., 2020; Sklyar et al., 2019; Tronvoll et al., 2020). This strategic transition has been studied from many perspectives in the existing servitisation literature. Theoretical grounds include capability (Spring & Araujo, 2013; Ulaga & Reinartz, 2011) and dynamic capability theory (Coreynen et al., 2017; Kindström et al., 2013), which has been considered the most dominant theoretical paradigm in the field (Raddats et al., 2019). Other theories applied to study this business phenomenon include power and industrial organisation perspective (Porter & Heppelmann, 2014), organizational identity theory (Huikkola et al., 2022), transaction-cost theory (Salonen & Jaakkola, 2015) and game-theory (Wagstaff et al., 2021). When product firms move towards selling more advanced services (Baines & Lightfoot, 2013) such as outcome-based contracts (Korkeamäki et al., 2021) or autonomous solutions (Makkonen et al., 2022), complexity of both offerings and the changes in the external environment increase. This increased complexity creates tensions within an organisation because the firm's business logic, identity and capabilities become more service and customer-oriented (Visnjic et al, 2022). Simultaneously, the firm must maintain its product-oriented business logic because products typically account for a remarkable share of its sales and are the basis for the (advanced) services sold for the clients (Kohtamäki et al., 2020). This ambidexterity needs alignment of both products and services/solutions (Bustinza et al., 2020; Schaarschmidt et al., 2018).

### **2.2 Organisational tensions**

Organisations face productive tensions (Bingham & McDonald, 2022) and even conflicts (Tidström, 2014) when pursuing strategic change. These tensions emerge for instance from the misalignment of capabilities, mindsets and activities between the units (Töytäri et al., 2018), separate business logics (Kowalkowski & Ulaga, 2017), conflicts of interests (Kohtamäki et al., 2020) and different rhythms between the units (Huikkola et al., 2022b). Tensions (umbrella term) can be paradoxes, indicating that organisations face contradictions that lead to situations in which options are mutually exclusive and thus, difficult or impossible to make choices between them. Hence, paradoxes require accepting both-and approach rather than either-or solution. This either-or perspective is associated with dilemmas. Dilemmas are situations in which managers can evaluate both advantages and disadvantages of different options and then make a (justified) decision which one to choose from (Smith & Lewis, 2011). Many times dilemmas can be counterintuitive, meaning that practices to solve dilemmas are not rational and thus, they do not seem to follow common sense (Christensen et al., 2018). As an example, established and innovative firms should react to disruptive innovation in a manner that is not based on their existing competences, values and routines.

### **2.3 Dynamic capabilities and organisational routines**

The dynamic capability approach addresses how firms renew themselves by developing and employing routines to sense new opportunities (Kindström et al., 2013), seize those opportunities

(Eisenhardt & Sull, 2001), and transform their capabilities to fit into rapidly changing environments (Teece, 2007). Firms revamp their routines to obtain, create, develop, and acquire new resources (Feldman & Pentland, 2003) and forget the old way of doing things (Huikkola et al., 2022). Organisational routines refer to repetitive patterns of actions to transform firm's assets. Routines are thus specific, repeated practices and checklists used to develop and execute strategic processes (Bingham & Eisenhardt, 2011). This routine perspective of dynamic capabilities suggests that firms learn through trial and error (Bingham & Eisenhardt, 2011). These mistakes made in the past lead to creating and establishing new routines that help firms to modify their assets and eventually, renew the organisation strategically.

### **3. METHODOLOGY**

#### **3.1 Research strategy and case selection**

We adopt an in-depth, single-case study research strategy due to its capacity to support capturing the complex phenomenon of tension management (Eisenhardt, 2021). We chose an incumbent solution provider because the focal company has recently expressed its willingness to become a smart solution provider. This means that their vision in the future is to provide more advanced services such as outcome-based contracts and autonomous solutions to its clients globally.

We selected this company because it is one of the leading solution providers in its sector, the firm has been able to monetise its services for a relatively long time already, and it offers smart solutions for its clients in global markets. At the moment, the focal company must develop smart solutions to address both external and internal changes and pressures (e.g., profitability requirements from the stock markets). Thus, the company provides a good and appropriate case of a future smart solution provider and its challenges along the way. Furthermore, some of the research team members have more than ten years of experience collaborating with the case company on service business development initiatives. This long-term collaboration has enabled us to understand certain strategic themes, such as key challenges and their root causes.

#### **3.2 Data collection and analysis**

As stated earlier, researchers have collaborated with a studied firm for a long time. These collaborations include mutual research projects (e.g., about service and solution business development), joint research work (e.g., common research publications) and training (e.g., strategy-related issues, firm's involvement in the university courses). We have also conducted 20 interviews with firm's executives and managers to understand better the key challenges and tensions regarding the strategic transition towards smart solutions. We collected extensive secondary data from public sources such as websites, annual reports, press releases, firm histories, executive speeches (e.g., capital market days, public presentations), and internal strategy documents (e.g., playbooks, strategy documents). Hence, various sources of data were combined to triangulate the data (Yin, 1994) and increase the study's validity and reliability (Storbacka, 2011).

We analysed the data through a thematic pattern-matching method. We first analysed the focal company's general process towards services and smart solutions. Second, we analysed general challenges and tensions regarding that transition. Lastly, we coded management practices and routines employed to manage those challenges and tensions in practice. These codes were compacted into first-order themes describing interviewees' original use of language (Corley & Gioia, 2004). The second-order themes focused on analyzing these first-order themes, whereas the aggregate dimension represents the most abstract thematical dimension.

### **4. FINDINGS**

#### **4.1 Tensions emerging from the strategic change**

We identified altogether five distinct tensions that emerged from firm's transition towards smart solutions. The first tension is short-term vs. long-term tension of target setting. As the case firm is a public listed manufacturer, profit pressures are evident and force company to behave in a manner

that serves short-term benefits. However, firm must be able to consider also long-term advantages and build a roadmap for the future. At the focal company, core technology roadmap for the company took as long as 20-30 year perspective. However, most projects were related to much shorter term objectives.

The second identified tension was related to tailoring vs. standardisation of doing. Tailoring is considered as a good service for the client. However, tailoring may be costly and inefficient as tailoring is not scalable and creates variation. Standardisation, on the other hand, attempts to reduce both variation and unit costs but may cause customer dissatisfaction, especially if the client has got used to tailored projects. Modularisation is one way to tackle these challenges and manage the tension stemming from efficiency-seeking standardisation and customer-satisfaction seeking tailoring.

The third tension is between product versus service mindset and identity. When product mindset is taking a push perspective (as Steve Jobs has said that customers don't know what they want), service mindset emphasises pull perspective that considers client as a key informant to develop solution offerings. As the focal company possesses a long tradition in manufacturing, selling and delivering products, this engineering mindset is dominant within a company. However, the studied company has been struggling with lack of service and customer orientation and started to emphasise the need to listen to clients' needs, job-to-be-dones, pains and gains better.

The fourth identified tension is related to organising tensions, namely whether to integrate products and services or keep them separated. When integration attempts to highlight synergy benefits between products and services, it often leads to power centralisation, especially for the unit that has traditionally gained power in history (in this case, the product unit). It may also lead to inefficiencies because of integration challenges. Structural separation, on the other hand, leads to efficiency benefits but hinders integration between products and services as both of the units are profit-and-loss responsible units on their own.

The last identified tension related to ambidexterity is taking advantage of existing assets (exploitation) versus exploring new opportunities. Established companies are typically in danger of falling into exploitation trap, indicating that they keep doing "right things for too long time". Start-up companies, on the other hand, may be in danger of falling into exploration trap, meaning that a firm is too keen on seeking too many ideas and is failing to exploit any of them successfully. To align both exploitative and explorative activities, managers can benchmark "ambidextrous organisations" and build practices that help to integrate these activities whether structurally (organisational-level integration) or contextually (individual-level integration).

#### **4.2 Building integrative routines to manage tensions**

We found three different integrative routines that help managers to manage tensions between products and services/solution businesses, namely 1) knowledge-sharing routines, 2) cross-functional collaboration routines and 3) decision-making routines. These organisational routines help a manufacturer to balance tensions stemming from contrary business logics of products, services, and software. These businesses also follow different cycles. These routines enable a firm to mitigate inertia regarding strategic change. However, executing these routines effectively is anything but easy.

*Knowledge-sharing routines* refer to ways to share information and knowledge within a company. In a studied case firm, ICT-systems played a remarkable role in sharing for instance customer information. This codified customer information and knowledge were useful not only for different business units (products, services, software) but also for the members within the same unit. To harness openness, the case firm created a playbook to encourage knowledge-sharing not only within a company but also across the boundaries. This playbook attempted to create new routines within a firm by encouraging people to share information. Encouraging examples to initiate change were the following extracts: "*Share your insights, skills and networks. What you know or can do just might be what is needed*" or "*Share your learnings and best practices with both the team and the wider audience*". These extracts manifest a firm's willingness to establish new routines to share knowledge and information both within and between organisations.

*Cross-functional collaboration routines* accord with practices that force or encourage individuals in different business units to collaborate and coordinate activities. Working together helps units to intertwine these different business logics and become more familiar with each other. The studied case firm wanted to increase mutual cooperation because the complexity of both environment and provided smart solutions requested this approach as the following quotes manifest: *“We are dealing with such complex problems that we need multidisciplinary teams to solve them. The sooner we start solving together, the better”* and *“Make sure you all agree on the goal you’re aiming for. Aim for win-win-win situations: mutual good, growth and benefit.”* The danger of cross-functional collaboration and coordination is that these collaborations will resemble committees that lack real decision-making power and thus, real impact on business.

*Decision-making routines* are those situations in which decisions are made mutually. In the case company, decisions boards were established for instance, in situations regarding new solution development. Even though these decisions followed the regular funnel model, it was important that decisions in each phase had certain decision-making structures and rules. In the exploration phase, the case firm had to evaluate if the idea had merit, was it lucrative enough and did it have a strategic fit with existing businesses. After this exploration phase, the decision board needed to consider if the idea had real demand in the key customer segment, if the idea had enough monetary potential and if the firm possessed the capabilities to run this idea further. Making decisions more routinised was seen mandatory to establish a better system that was more consistent, systematic and efficient.

## 5. DISCUSSION

### 5.1 Theoretical contributions

The present study contributes to the existing literature on tensions in servitisation in two ways. First, the study advances the extant servitisation research of tensions (e.g., Kohtamäki et al., 2020; Korkeamäki et al., 2022; Visnjic et al., 2022) by identifying five distinct tensions regarding 1) time (short vs. long perspective), 2) efficiency (tailoring vs. standardising), 3) identity (product vs. service identity), 4) organising (integrated vs. separated) and 5) acting/doing (exploitation vs. exploration). These tensions become evident when a manufacturing company pursues a strategic change. These tensions can be framed whether as dilemmas (either-or) or paradoxes (both-and). In this case, managers treated these tensions as paradoxes as they tried to balance between them and utilized paradoxical framing (Vallaster et al., 2019) when addressing these emerging issues.

As a second theoretical contribution, the present study contributes to the discussion of tension management routines and practices (Kohtamäki et al., 2020; Visnjic et al., 2022) by identifying three integrative routines that help a manufacturer to better align products, services and software together. These integrative routines are knowledge-sharing routines, cross-functional collaboration routines, and decision-making routines. This study thus advances our understanding how manufacturers who attempt to sell smart solutions need to share knowledge and information not only within a firm but also across its boundaries. As the complexity in both environment and provided solutions increases, top management team needs to establish tools, practices and routines that facilitate knowledge and information sharing both within and between organisations. Utilisation of different ICT tools and platforms such as Slack or Jakamo is one way to facilitate knowledge and information sharing and codify the information (e.g., customer-related information, technology knowhow, process information). Cross-functional collaboration routines (see Porter & Heppelmann, 2014) attempt to increase mutual understanding of different businesses (products, services, software) and facilitate coordination of activities between them. Based on interviews, firms should devote enough resources to cross-functional development activities even though in the short-term perspective, they may not be so urgent. However, in the long run, investing in cross-functional work may increase mutual understanding and help firm to sense new opportunities, learn from each other, decrease information asymmetries between the units and understand different perspectives and requirements better. Mutual decision-making routines (see Cui et al., 2019; Huikkola et al., 2022b) have been established to make decision-making more transparent, increase mutual commitment, improve consistency, and make organisation more agile in responding to changes taking place in the environment.

## 5.2 Managerial contributions

Managers in manufacturing companies today are facing many tensions and they feel that they need to correspond to contradictory demands. Especially middle managers face different tensions occasionally. This study helps managers to understand that these tensions are almost inevitable and they can be identified and thus, managed. However, some tensions (dilemmas) can be solved whereas most of the tensions (paradoxes) cannot be solved. However, they can still be managed by establishing new integrative routines. The present study identifies key tensions firms face when pursuing strategic change from products to smart solutions. Furthermore, this study identifies key organisational routines and practices to manage those tensions. Managers can benchmark practices and routines identified in this study. In practice, managers can advance development of modularity within their organisations, establish new organisation structures (e.g., smart solution focused unit) to develop, sell and deliver smart solutions. To bridge products, services and software, integrative routines should be developed. Managers can pay special attention to create structures that facilitate knowledge sharing within an organisation (e.g., establishment of new ICT systems) and create incentives to use those systems. Also cross-functional collaboration should be encouraged to gain long-run benefits. Managers should avoid that this collaboration would resemble committees but ensure that real development occurs in those collaborations. One potential practice to increase cross-functional collaboration is job rotation between the units. This job rotation could include not only managers but also white collar professionals. Talent management should be considered in all of the units, meaning that services would not be seen as something dirty as is often the case in manufacturing companies. Also software people should be able to pursue opportunities in higher hierarchical layers.

## 5.3 Limitations and future research avenues

The chosen research method sets limitations for generalizability of the results. As this is a qualitative in-depth single case study, the results do not contain statements of the type or relative share or importance of tensions in managerial practice but form a general basis for understanding such tensions and opportunities for building balancing routines. Thus, other empirical studies applying comparative and multiple case method would be useful for building understanding on the contextual contingencies regarding industry and company characteristics and their connection with tensions and opportunities for balancing routines in practice. Future research could aim to produce individual level accounts on how managers identify tensions and what kind of emotions they feel when facing and managing them (Vuori & Huy, 2022). Future studies could also study microfoundations and psychological foundations of individual managers regarding these productive tensions – what kind of mental models and heuristics managers develop based on lessons learned from similar paradoxical framings.

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## ACKNOWLEDGMENTS

We want to acknowledge the anonymous case company for their insights, devoted time and interests towards our research on strategic change.

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