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# Adopting business models for sustainability and digitalization. A process study of microlevel dynamics in an incumbent firm

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## Extended abstract

### Abstract

Incumbent firms face growing pressure to transform their business towards sustainability. However, business models for sustainability (BMfS) and circularity are grounded in fundamentally different institutional logic which, for incumbents, creates tensions with existing business models, structures and routines. How organizations manage tensions from conflicting logics is explored comprehensively in research on hybrid organizations and sustainable entrepreneurship – however, focusing on ventures already founded with sustainability-oriented/hybrid missions. It is unclear if and how such logic hybridization processes unfold in incumbents and what role digitalization plays. This research aims to explore and explain microfoundations of how involved actors (struggle to) make sense of BMfS in incumbents and how this is underpinned by broader shifts towards hybrid organizational logics. This longitudinal case study takes a process view (Langley, 2007, 1999), following a large manufacturer's Swedish division where a team works towards implementing a BMfS grounded in circularity and digitalization while facing doubt and inertia. Triangulating interviews, observations and documents, we track internal processes as they unfold in real-time to study how actors experience and rationalize the BMfS and navigate emerging tensions. Preliminary findings suggest that BMfS trigger diverging interpretations from different logics and therefore cause tensions. Overcoming these benefits from external impulses (e.g. customer or management communication that legitimizes new logic element), finding third-party common denominators (e.g. emphasize BMfS' digitalization element) and continuous exposure. Upon completion, this research will provide a process model of how microlevel dynamics shape BMfS adoption, while opening for future research on hybridity intersecting with sustainable entrepreneurship literature.

### Introduction

Companies face growing institutional pressure to transform their business to address grand challenges (George *et al.*, 2016), such as climate change, by integrating sustainability into their business model. This can, however, be challenging as business models for sustainability (BMfS) and circularity reflect a “fundamentally new logic of doing business” (Schaltegger, Lüdeke-Freund & Hansen, 2016:p.270) and “change in the basic logic of value creation” (Rauter, Jonker & Baumgartner, 2017:p.146), for instance based on retaining ownership and product-as-a-service offerings. For large established firms, this creates tensions with existing business, structure and routines which are grounded in commercial institutional logic (Laasch, 2018; Fehrer & Wieland, 2020). Moreover, when new BMfS entail digital elements, it remains unclear how digitalization facilitates or complicates BMfS uptake in incumbent – compared to entrepreneurial (Gregori & Holzmann, 2020) – contexts. Studies in the service and servitization literature have provided crucial insights into corporate shifts to service-based business models (Baines *et al.*, 2020) and the corresponding transformation (Kurtmollaiev *et al.*, 2018). Yet, the focus here is often on providing superior customer value and competitiveness (Gebauer *et al.*, 2017), i.e. the new business model continuing to follow the overarching goals of established commercial logic. It remains unclear what the implications are when companies pursue service-based business models explicitly for their sustainability potential.

Institutional logics are implicit, socially-constructed guiding principles that assign legitimacy to specific objectives, values and practices (Friedland & Alford, 1991), and thereby help actors understand and navigate their social and organizational reality (Greenwood *et al.*, 2011; Besharov & Smith, 2014). In short, logics specify the “rules of the game” (Thornton & Ocasio, 2012:p.112). When multiple logics view diverging priorities or contrary behaviors as legitimate, companies experience tensions (Ocasio & Radoynovska, 2016; Pache & Santos, 2010). In corporate sustainability, emerging sustainability logic creates friction with the established commercial logic that underlies incumbents’ business-as-usual (Stål & Corvellec, 2018). Logic tensions emerge concerning value creation (what type of value; value created for whom), legitimate means (selling products vs. circularity, sufficiency etc.), perceived responsibility (shareholders vs. stakeholders/system) or time horizon (short-term vs. long-term). While BMfS are not necessarily incompatible with conventional business logic, they add complexity and tension that can create conflict if left unmanaged.

How companies manage tensions from conflicting logics is explored comprehensively in research on hybrid organizations (Battilana *et al.*, 2015; Pache & Santos, 2013; Jay, 2013) and sustainable entrepreneurship (Belz & Binder, 2017; Stubbs, 2017) – however, focused on ventures explicitly founded with hybrid sustainability-oriented missions ( “born hybrids” (Newth & Woods, 2014:p.199)). Consequently, literature focuses on how to minimize and control tensions (Battilana & Dorado, 2010) or avoid mission drift (Grimes, Williams & Zhao, 2019), rather than how to build constructive synergies (Vedula *et al.*, 2021) or – as needed for incumbents – how to move towards hybridity in the first place. It remains unclear how logic hybridization processes work for large incumbents that are challenged to integrate sustainability into their established commercial logic. The slow uptake of BMfS suggests that incumbent organizations struggle to productively manage tensions during transition.

Looking beyond ‘the organization’, this paper focuses on the microlevel processes of individuals affecting or affected by the BMfS innovating process who need to navigate these tensions and make sense of the underlying logics over time. Employees – for instance sales staff – whose ideas of appropriate behavior are steeped in a predominantly commercial logic, are unable to fully ‘get’ how

the BMfS works, where it creates value (beyond financial value) to customers (and other stakeholders), and thus – in case of sales staff – struggle to sell it successfully, with consequences for BMfS' acceptance and performance.

This paper, therefore, aims to explore and explain microlevel processes of how actors in incumbent firms make sense of and hybridize competing logics during (or perhaps through) BMfS innovation processes. I thereby hope to contribute to understanding the trajectories that BMfS adoption can take in incumbent firms and to extend existing knowledge on hybridization in 'born hybrids' to cases of 'becoming hybrids'. Thus, the paper addresses how logic hybridization unfolds in an incumbent firm and how actors in the firm respond to and navigate tensions that emerge from conflicting logics while adopting a BMfS.

## Method

This process case study (Langley, 1999, 2007), follows a company's BMfS adoption process over >12 months. The case company is a large manufacturer of industrial motors (>110,000 employees in >100 countries) with recently-updated sustainability targets. In their Swedish division, a self-selected team around the Business development & Digitalization manager pioneers a BMfS enabled by circularity and digitalization. Essentially, this BMfS utilizes the company's remote-monitoring sensor technology but instead of selling sensors, they servitize the offering, analyze data in-house and provide customers with energy-efficiency-assessments that flag looming equipment failures or inefficient motors. The service further includes a take-back-system for scrapped motors to close the loop.

While the BMfS change appears rather incremental from a sustainability perspective, it represents a key steppingstone towards the team's agenda an 'everything-as-a-service' ('EaaS') BMfS, enabled by circularity and digital expertise. Yet, already in its current form and despite successful customer trials, the BMfS triggers considerable doubt and resistance among employees. Local management approves but has not provided explicit endorsement or budget support. Global management views the BMfS as an important pilot for other markets (the Swedish institutional context being progressive on sustainability and digitalization) but is not formally involved.

To explore and explain how actors in the organization make sense of conflicting logics during BMfS adoption, this longitudinal study generates rich insights into the phenomenon (Flyvbjerg, 2006). Therefore, we emphasize access to inside views and actors' reality over an extended period (with primary researcher embedded in the firm if Covid allows). Specifically, the case emphasizes development over time and therefore leans on process methods as developed by Langley (1999, 2007) to capture microlevel dynamics as they unfold (Langley *et al.*, 2013). For this purpose, the paper tracks key events, decisions and activities through triangulation from internal documents and interviews. Alongside this factual timeline, rounds of semi-structured interviews capture individuals' observations, experiences and (changing) understanding of BMfS and emerging difficulties. Interviewees include individuals (local level, global level and pilot customer organizations) who are/were involved in the BMfS and have first-hand experiences.

For data analysis, the focus will be on mapping the timeline of how BMfS develops against how individual narratives unfold over time, to identify where tensions and diverging rationalizations emerge, how individuals relate to them, how they are overcome/avoided, which implications this has on BMfS elements, when and how individuals show changing logic constellation etc., and interactions between these. For capturing logic constellations and sensemaking, the study follows

Reay & Jones' (2016) approach of using 'pattern-matching' to capture institutional logics by analyzing data against logics' ideal types (here, commercial and sustainability logics). Making such patterns and mechanisms explicit is a common approach in process research (Cornelissen, 2017) for abstracting rich narratives into more theoretical explanations (Langley *et al.*, 2013).

## Expected results

Since this research is still in the early stages of the longitudinal set-up, the findings presented here are preliminary. Eventually, the intention is to create a process model of how microlevel dynamics evolve and shape BMfS adoption in incumbents. As we are following the BMfS process in real-time, it remains open-ended how the BMfS, its grounding in commercial and/vs. sustainability logics, the BMfS' digitalization element, or organizational dynamics more broadly are going to play out.

## Preliminary conclusions

This study contributes to the literatures on BMfS and organizational hybridity by exploring and explaining the microfoundations and intra-organizational processes that underlie and shape how (and if) incumbents move towards BMfS and hybrid logics. Drawing on process methods emphasizing process thinking and development-over-time this paper develops a more dynamic and time-sensitive understanding of BMfS that complements more static views of BMfS configurations, value elements or stakeholder relations implied in the business model canvas. By conceptualizing the BMfS not just as an outcome but also a means for navigating competing logics and tensions on micro-level, the paper constructs parallels with current conversations in social/sustainable entrepreneurship. Further exploring how hybridity is created (in incumbents, to begin with) and re-created (in sustainable ventures, to reverse mission drift) through the BMfS as a moderating device represents a relevant direction for further research.

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## Keywords

Business model; Sustainability; Institutional logics; Hybridity; Process study

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