Legitimizing towards diverse stakeholders in a nascent ecosystem setting

In high-tech business ecosystems, managers must strike a key balance between exploring new innovation opportunities that will allow their firms to access strategic ecosystemic positions and simultaneously adhering to the expectations set upon them by their stakeholders. Especially due to a high degree of interaction between ecosystem participants (Jacobides et al., 2018), this can be a tricky process for firms such as large MNEs with a variety of stakeholders - complementary partners, clients, regulators, investors, and so on. Scholars studying how incumbent firms respond to threatening innovations elsewhere in their ecosystems (Ansari et al., 2016; Bitektine et al., 2020; Khanagha et al., 2020) have pointed out that while technological advancements within firms are important for ensuring their survival in the face of disruptive innovations, the perceived *legitimacy* of those innovations as well as the firms and individuals pushing them forward are necessary for their adoption.

External judgments are consequential for how innovating teams within firms can feasibly implement responsive strategies going forward. Recent empirical work further helps us understand how legitimacy correlates with the nature of the new offering in question (Zhao et al., 2017) and the importance of narratives and rhetoric in legitimacy-building to outside parties (Garud, Gehman, et al., 2014; Patala et al., 2019). Yet, what is missing is a close look at how managers balance legitimacy campaigns to external *as well as internal* stakeholders, especially when exploring ventures with no precedent and past performance from which these stakeholders can make quick judgments of institutional alignment. Thus, the question we pose is *how do managers legitimize their innovation strategies to internal and external stakeholders?*

Conceptual Background

Legitimacy

As scholars have argued for some time (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Suchman, 1995), institutions and the patterns they encourage persist even through large-scale change. A manifestation of this is legitimacy and its process form, legitimization. Legitimacy in this paper uses Deephouse et al.'s (2017, p. 32) definition: "the perceived appropriateness of an organization to a social system in terms of rules, values, norms, and definitions." Legitimacy and legitimization activities can occur at various levels: within firms, between firms, and between fields of firms (Aldrich & Ruef, 2006). In our study, we focus on the former two since the actions of individuals are most apparent at and within the boundaries of firms. Furthermore, as the rules, norms, and so on applicable in a highly technological ecosystem generally follow the progress of technological innovation, legitimacy criteria as they pertain to such can change over time and the ways for a firm to achieve, maintain, and manage legitimacy change over time as well.

Orchestration

An important aspect of orchestration, or where a central firm creates and captures value using the offerings of other firms (Dhanaraj & Parkhe, 2006), is that the orchestrating firm needs to gather a series of complementors to whom they must convey that what they are doing is legitimate. These terms and dynamics are highly similar to platform ecosystems, where recent literature has shown that the steps towards accumulating legitimacy with external stakeholders are slippery (Khanagha et al., 2020; Ozalp & Cennamo, 2017). Participants must conform to socially constructed norms to achieve legitimacy and, as mentioned previously, these norms can change over time.

Extending on works like that of Paquin and Howard-Grenville (2013), the orchestrator is an interesting point of focus from a value capture point of view because the orchestrator identifies firms with offerings that, when combined, can create a new offering of ostensibly increased value (Dhanaraj & Parkhe, 2006). Of course, these values and configurations of firms must adapt to the evolving meaning of legitimacy, necessitating a change in orchestration strategy over time that must remain somewhat aligned between orchestrated components.

From a value creation perspective, external stakeholders such as the complementors meant to be orchestrated must be convinced that the time and resources they will dedicate to the hub firm's endeavor will be worth it. That generally means that the return will be greater than the contribution, which involves a belief that the orchestration venture will associatedly be perceived as legitimate by others inside and outside of the ecosystem. Especially when the firms to be orchestrated are startups, where resources are already stretched thin, this is a difficult campaign for orchestrating managers to win.

Research Site

This research project involves close collaboration with an incumbent firm, Atos, and specifically its Alpha Team industry directors, the core team in charge of handling financial service client accounts as well as Atos' engagement with fintechs. Atos has a long history in the ecosystem and, in the modern age, has typically offered IT and digital transformation (Verhoef et al., 2021) solutions to firms in various ecosystems - financial services included. However, it is currently undergoing a large-scale verticalization to broaden the solutions it can offer, thus leading it to be an ideal firm to focus on for our research endeavor.

Additionally, we worked closely with the founders of TechQuartier, a startup incubator in Frankfurt, Germany with a strong fintech presence. Atos developed a partnership with this incubator for reasons we will explain in the full paper, but it became an important space for observational data collection. This hub is a gateway to many dozens of fintechs, and the collection of them form a network managed by the founders. This management involves the control of entry as well as orchestration of collaborative ties, but the fintechs are also free to build their own partnerships - such as with outside parties that enter the space.

Data Collection

Data collection for this research began in August 2019. Our primary window into the firm was through Alpha Team's industry directors. The directors typically have between 10 and 20 years of industry experience, and are specialized in various fields related to finance: insurance, compliance, finance technology, et cetera. They are assigned stewardship over the accounts of the firm's largest clients, such as well-known banks, payment providers, and the like. With their specializations and the clout that comes from having close ties with large players in financial ecosystems, the directors are major actors in the research site, entrusted by their organization with a fair amount of autonomy to act on behalf of their organization within the ecosystem. These directors have made a concerted effort to build strong ties to the ecosystem of fintechs that has blossomed over the past six years in order to gain an understanding of and provide innovative solutions to their clients' needs.

We have so far conducted fourteen semi-structured interviews with seven mid- to top-level directors and four interviews with fintechs and the incubator founders. We have also conducted one interview with a senior market analyst to give triangulating perspectives on the firm. These interviews range from 18 to 53 minutes. Some are recorded and transcribed, and others were rigorously notated, depending on interviewee preference. We intend to continue interviewing these informants until we have achieved theoretical saturation and no more new, significant data arise. Augmenting interview data are notes from sitting in weekly strategy meetings among the Alpha Team directorate. We have notated these meetings for relevant themes since August 2019 and will continue to do so through this paper's submission. Additionally, we have made use of various reports and regulatory documents from European institutions engaged in and overseeing the financial services ecosystem that we investigate.

Data Analysis

As this research is a qualitative investigation of a series of phenomena concerning a socially constructed concept, this is a subjectivist-constructivist process study. Close contact with actors in the field means capturing their narratives, both historical and ongoing, as they experience ecosystemic change and the challenges endemic to legitimization. Capturing these processes as experienced (Garud et al., 2018) involves a series of interviews with actors in the firm, those who assess their legitimization efforts as external stakeholders, and non-partisan observers who provide triangulating perspectives. At each step, the dialogues that happen between actors within the firm and those who observe them form co-created ideas of the firm's collective legitimacy. Engaging in ethnographic methods as the actors engage in relevant legitimization activities will shed light on the peripheral activities necessary to answer how managers legitimize their innovation activities to various stakeholders.

As laid out, process is an inevitable instrument of this investigation. Organization scholars (Langley, 2007; Van de Ven & Poole, 2005) have followed Heraclitus, Democritus, and Whitehead (1929) among others in establishing a weak and strong process view for organization studies . We use a weak process view in this study, where organizations are more or less stably identifiable across time. Process, then, comprises the multiplicity of interactions between them that are necessary for them to remain in action (Langley, 2007). We coded our interviews accordingly and episodically. The various reports and other regulatory documents we collected along the way allowed us to corroborate our findings via content analysis (Duriau et al., 2007).

Findings

Our main findings identify three phases of the orchestration campaign on which Atos managers embarked. The first phase involved a reckoning with Atos' aging workforce and history as a horizontal, or industry-specific firm. This meant that Atos was generally perceived in the financial services field as a company that could provide trustworthy IT services and others in the realm of digital transformation, but it was not seen as the first stop for other ecosystem participants to innovate their own offerings.

In this first phase, Atos industry directors began to experiment with building modular solutions that could be recycled for other clients' solutions, thereby lowering the build cost of each. To do so systematically, the core team had to stand up a formal orchestration platform. This required financial resources, human resources, and so on under the primary control of other units in the firm to build. Thus, the industry directors had to begin a legitimacy-building campaign inside the firm to enlist help from these other units, who had no prior performance of the orchestration strategy by which to judge the endeavor's future and expectations they should have for such. Simultaneously, the industry directors needed to pitch the orchestration strategy to outside firms - mainly fintechs but also clients and potential partners - as though it already existed.

The second phase begins to show where internal and external stakeholders could be made to work for each others' interests. The industry directors could leverage the enlisted external parties' support in order to build legitimacy with internal stakeholders. Populating the orchestration platform with fintech participants convinced internal stakeholders to lend their support to the endeavor, broadening its capabilities and allowing the core team to further their reach. This led to more instances where they could effectively show off what they were doing in order to attract even more ecosystem participants as external stakeholders, which further impressed internal stakeholders, and so on. This began an engine of sorts, which led to the third phase.

The third phase was where Atos actors used the orchestration platform to build legitimacy and architectures for further projects elsewhere in the organization. For the individuals and especially the leader of the team, this added visibility was an accolade of sorts that could be used to garner support from the top management team to embark on ventures that fell outside of the original jurisdiction of the team, allowing them further visibility throughout the organization. Outside the organization, the firm began to take part in larger projects which could only be done with the progress that was achieved with this orchestrated approach.

Discussion and Conclusion

We discovered that actors on the core team initiating the intent to catch their firm up with its outpacing competitors had to woo internal stakeholders with the idea that its innovative orchestration was already underway and vetted by knowledgeable, outside agents, while simultaneously convincing the external stakeholders whose buy-in it needed to power the system that it would be a lucrative endeavor in which to participate. We thus add to literature streams concerning value creation in ecosystems (Adner & Kapoor, 2010; Ceccagnoli et al., 2012; Cennamo & Santaló, 2019) by shedding light on internal stakeholders as important actors to consider and removing the *de facto* assumption from these streams that firm managers who engage in novel ecosystem ventures can rely on *ex ante* internal stakeholder support.

Where these discourses happened in a temporal sense relative to each other also places focus in a story of narratives (adding to Garud, Gehman, et al., 2014; Garud, Schildt, et al., 2014; Kuratko et al., 2017) to actual and symbolic discourses. At times, symbolic discourses were meant to relay future states, which would conditionally become actual pending the stakeholder's support. This makes the orchestrating manager's role especially difficult, in that he or she must keep track of to whom what was promised and whether those expectations will be met on time and with any necessary, dependent support from others in place.

Time is a recurring theme in this work, and as a process work, we add to the broadening and respectable field of scholarship seeking temporal understandings of firm innovation (Kouamé & Langley, 2018; Paquin & Howard-Grenville, 2013). Researching the actions of managers in a firm who are dealing with a rapidly shifting landscape allowed us to observe a fascinating diversity of environmental factors that these actors were made to deal with. We believe that insights from these are useful for process literature as well as for practitioners who find themselves in settings of accelerating change.

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