

Paradoxical Relationship of Organizational Routine and Agility in Mediating Copability and Adaptability to Improve Team Performance in Financial Service Industry

Agung Haskara^{1,*} Lily Sudhartio¹

¹ Faculty of Economics and Business Universitas Indonesia

*Corresponding author. Email: agung.haskara@ui.ac.id

ABSTRACT

In an academic or business environment, we often find theories that are logical when we look at the theory individually, but not rational when we observe it simultaneously. The phenomena is called paradoxical relationship. This study observes the paradoxical relationship of two conflicting, yet synergistic views. We observe the factors which enable the organization to either internally cope with the change or adapt to the external environment. After that, we also observe both factors' impact on how the organization operates and whether it will maintain the organization routine or to be agile and change their structure. We then observe the overall impact on performance. In this research, we observe the change in the financial service industry, which operates under a narrow regulatory corridor but is required to create service differentiation between companies, and even team members across one company. This study's scope will be limited up to the variable operationalization stage. Data collection and results analysis are required for further stages of analysis.

Keywords: *Paradoxical relationship, organization routine, organization agility, team performance, copability, cope-ability, adaptability, strategy, change.*

1. INTRODUCTION

In the academic and business environment, we often find a contrasting view, in which both views are correct individually but rather irrational when we look at both views together. The mentioned relationship is defined as a paradoxical relationship [1]. Paradoxical relationship addresses pulling tension between two variables that are synergistic [2]. Opposing views that have paradoxical relationships commonly result in one bottom line question, is there any specific equilibrium point between the two polarizing theories?

This phenomenon can be observed through companies which have operated for a long time. According to research done on US-based companies who were established for more than 100 years, a long-established institution should not be traditional that prevents it to move forward, nor too radical that the organization would go off the track [3]. From this phenomenon, we can infer that there are two main opposing forces that enable the organization.

The first one is whether the aforementioned organization keeps the business operation in a routine, or if the organization is flexible enough to adapt to the environment [4, 5, 6]. The next factor is the determinant of the change in an organization. One famous study indicates that a reaction is to cope from the changes because of internal identities, or to change their identity to suit themselves with the environmental needs [7].

Various literature states the contrasting view on how the organization performs. The first stream of literature indicates that the organization should maintain their operation on a routine basis in order for the company to outperform others [8, 9, 10]. On the contrary, a series of articles also argue that the organization should be agile and able to react to the environment swiftly. The ability of an organization to be able to react to the environment will allow the company to adapt and cope with change, enabling them to have a sustained competitiveness. In the stream of organization routine, an organization should perform their operation in a consistent, standardized matter to trigger the organization learning

capability. Although having stability has a positive impact on the organization, a series of theories points out that routines lead to a series of disadvantages [11, 12, 13, 14, and 9].

The aforementioned paradoxes can be observed through organizations which were established for a long period of time, under a narrow corridor of regulations, but still have some certain differentiation of the goods provided. One of the best examples of industries that has all three traits is the financial service industry. In spite of a series of economic crises and turmoil, numbers of new institutions, and modernization, several banks, non-bank financial institutions, and other institutions are able to survive for more than 100 years. In spite of the flexibility that financial service industry players must possess, companies in the industry must comply with a series of regulations. There are some cases of institutions that have to change their practice to align themselves with the regulators. The combination of innovation in the financial service industry, narrow regulatory corridor, and new entrants generate pressure from outside to change but also develop internal mechanisms to cope with the change. This combination will affect the organization to decide whether to change their routine or to be agile. From all this, we are able to observe the paradoxical relationships from this industry.

In order to fully understand the two paradoxical relationships and the stronger pulling factor, the author will collate and observe previous literature that explores stated phenomena. This study will have three objectives. We will observe the paradoxical relationship between copability and adaptability that has a stronger impact on organization routine. Next is determining the stronger factor between copability and adaptability that affects organizational agility. Lastly, we also observe the paradoxical relationship between organization routine and organization agility and which factor affects the performance better. This study is limited to developing a methodology. Data gathering and analysis will be done in a future study.

2. LITERATURE REVIEW

2.1. Paradoxical Relationship

In the academic field, we may find some opposing views that sound logical when we look individually, but seem irrational when we look at both views altogether. The relationship is called a paradoxical relationship. In order for a relationship to be a paradoxical one, it must follow the highlighted component of paradox: (1) each of the individual elements is logical individually, but inconsistent when we look at both elements altogether and (2) the response of the elements is experienced simultaneously [1]. In contrast with contingency theory, paradoxical relationship study is able to observe the

continuous efforts to meet multiple demands of the stakeholders or continuous series of events [15, 1].

In order to determine which paradoxical model can be used, we must be aware of the goal of certain paradoxical models. The model must be able to (1) create conceptual clarity, (2) describe both inherent and socially constructed characteristics of the tensions, and (3) integrate management strategies of acceptance and resolution [2]. The first alternative is to use static equilibrium, in which the system is at a steady state when all components are at rest. The second option is to use dynamic equilibrium, the condition when the two opposing elements are moving dynamically. In the organization term, we can state that the strategy is dynamic and ever changing, thus we will make the model through a dynamic equilibrium model. This will strengthen the finding on research in the previous literature on dynamic equilibrium models. Not only that, this will also test the application of dynamic equilibrium models to capture various organizational phenomena.

2.2. Organizational Routine

In organizational theory, organizational routine is the repetitive, interdependent, consistent actions that are carried out with the multiple actors in the organization [5]. Organization that conducts their activities regularly with a long period of time performed organization routine. Most of the time, without the organization's knowledge, they will perform a set of recurrent actions that will then turn into their central action. Performing the stated action will greatly affect how the organization performs.

Routine has some positive impact on the organization. Working on specific work consistently will trigger the organization to induce organizational learning [8, 9, 10]. Furthermore, implementing organization routine will also store the capabilities and knowledge of the respective organization, improving their organizational memory [16]. All the stated information will induce the organization to gain stability in their organizational matters. Having stability will provide them ability to retain their internal value, and to be able to cope with the changes that come from within [17, 18].

There are some drawbacks of organization routine, namely inertia [11], inflexibility [19, 20] and mindlessness [12]. Previous literature indicates that the excessive organization routine will then make the organization less flexible and more static. From both views, we can see there is an indication that there is a paradoxical relationship, and we have to look at the routine organization as a whole. We also need to compare the routine with the agility, which we will describe in the future subsection. In order to understand how routine can be a source of inertia and flexibility,

while is also a source of flexibility and change [5], we have to understand the aspects of organization routine, ostensive and performative aspects.

2.3. Organization Agility

Organization agility in definition is the ability of an organization to respond to the dynamic environment by changing or utilizing their competence to cope with the needs of the environment. The definition can be explored further by focusing on the ability of an organization to reinvent the corporate strategy in a dynamic matter, but not straying from the organizational vision [21]. Furthermore, it also noted that the organization should also change or adapt its internal structure to gain an edge on the industry [22]. All the definition provides a bottom line of the ability for the organization to change or adapt to the environmental needs.

To set the borderline between the needs of agility, a research by [3] conducted on 537 top level managers from 84 US-based companies which are able to survive for more than 100 years. From his observation, an organization needs to have a balance across multiple aspects in the organization. It should not become so traditional that it prevents the organization to move forwards, but not too radical that the organization will lose track. On the other hand, the organization should be able to return to the core organization prior to move forward again.

period of time, there are two significant processes that act as the key factor on survival namely adaptability and copability [7]. Survivability of an organization is often reflected on how animals and organisms are able to survive in an environment according to some literature, namely by [23, 24]. They support the way an organization behaves.

According to [7], adaptability refers to the organization's ability to sense and analyze the internal and external environment. From the stated environment, the organization is able to react accordingly to create balance, or to survive with the change.

On the other hand, copability or cope-ability is the ability for the organization to conserve its identity and internally overcome the change. Copability will allow the organization to react to the change without greatly changing its internal structure. Copability of the organization allows work of [23, 24] on organizational behavior and similarity of organization with cell and living being. In their research, they state the similarity on which both of them are autonomous, and the pattern of the entity is not determined by the external environment but the internal system's ability. Furthermore, it is also mentioned that the structure of the living system or organization is open to considerable change, but the form or pattern will remain the same.

3. RESEARCH METHODOLOGY

This study is done by an empirical quantitative process to team heads on Credit Rating Agency ABC. We are able to map the research with the Figure 1.

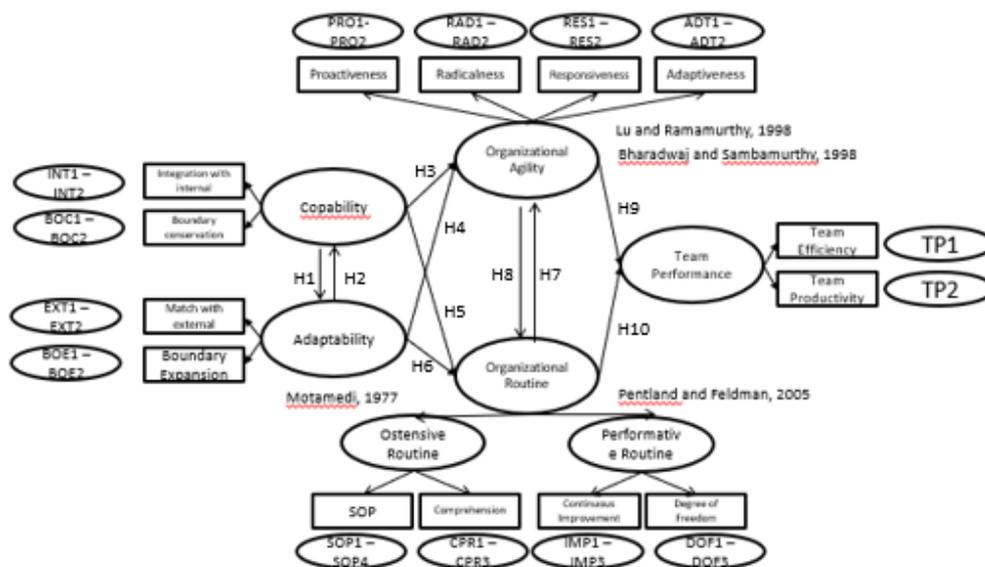


Figure 1 Research Model

2.4. Copability and Adaptability

From all aspects that literature analyzes on the groups or observations that are able to survive for a long

3.1. Research Model

The model first takes a look at the organization's ability to survive by their adaptability and copability [7]. From the two antecedents, adaptability is then connected to organizational agility by a process of coevolutionary adaptation [25]. Adaptation can also affect the organization through changes of the routine that can be displayed by the various levels of the organizations [26]. On the opposite side of the spectrum, the ability of an organization to cope with the change and not to change their structure is also mentioned in the aforementioned articles. Observing both variables will provide us with clearer results on which action that should be taken by an organization.

Organizational Routine and Organizational Agility will be the two main variables that were debated for a long time. There are numbers of research that shows the positive effect of the routine [8, 9, 10] and also of the negative effects [11, 19, 20, 12]. These articles also show that both variables were pulling and affecting each other, hinting a two-way relationship between the variables.

On the agility side, [27] and [25] conducted research that describes the organizational agility and its dimension, and how it affects firm performance. Organizational agility itself can be expanded by various factors based on Lu and Ramamurthy's research and author decided to determine 4 variables for organizational agility, namely proactiveness [28, 29], radicalness [29, 30], responsiveness [31, 32], and adaptiveness [33, 34, 35].

As for the Organizational Routine, it will follow a study by [36] on routine organization. It will be divided into ostensive routine and performative routine. For ostensive routine, it will focus on the Standard Operation Procedure and Comprehension of the organizational member. On performative routine, it will see the ability of the organization to perform continuous improvement and degree of freedom that the organization has. This study will finally observe the impact on the team's performance.

This research has the following hypotheses:

- H1: There is significant influence of copability on adaptability
- H2: There is significant influence of adaptability on copability
- H3: There is a significant influence of copability on organizational agility
- H4: There is a significant influence of adaptability on organizational agility
- H5: There is a significant influence of copability on organizational routine
- H6: There is a significant influence of adaptability on organizational routine
- H7: There is a significant influence of organizational routine on organizational agility
- H8: There is a significant influence of organizational agility on organizational routine
- H9: There is a significant study of organizational agility on team performance
- H10: There is a significant study of organizational routine on team performance

We will first conduct descriptive analysis to analyze the research object and map the respondent based on characteristics and tendency to answer. After the descriptive analysis, we will then analyze the model using structural model analysis using SMART PLS with three stages of analysis, consisting of Analysis of Outer Model, Analysis of Inner Model, and Hypothesis Testing.

3.2. The Research Context

This research will be conducted on Credit Rating Agency ABC, which operates under a series of regulations that must be obliged by the organization. The Credit Rating Agency operated for relatively long time, spanning for more than 50 years and some of them even reached 100 years. This enables us to identify if the organization is still maintaining its internal value.

As for the scope itself, it is suggested that research on the managerial level with the scope of the analytical team or task force. The reason to use an analytical team head is that the Credit Rating Agency operates on a team basis which has a degree of autonomy between each individual team. In spite of the tight corridor of regulation, team heads have the creativity to tackle each client or issuer using their own approach.

3.3. Variable Operationalization

Variable operationalization can be seen on table 1.

4. RESULTS

4.1. Copability vs Adaptability's impact on Organizational Agility

Research done by [3] on 84 US-based companies indicates that there is a need of the organization to be agile. The view is also strengthened by the ability of the firm to be able to reinvent the strategy in a dynamic matter, but not straying from the organizational vision [21]. However, the organization should be both able to change, but also not to change. This results in both factors that might affect the organization. This research also hints that the organization should be able to change

Table 1. Variable Operationalization

Variable	Dimension	Indicator	Reference
Copeability	Integration with internal value	Organization is able to integrate with internal value (INT1)	Motamedi, 1977
		Organization is able to integrate with internal value (INT2)	Motamedi, 1977
	Boundary conservation	Organization is able to conserve its boundary (BOC1)	Motamedi, 1977
		Organization is able to conserve its boundary (BOC2)	Motamedi, 1977
Adaptability	Match with external	Organization is able to match external pressure (EXT1)	Motamedi, 1977
		Organization is able to match external pressure (EXT2)	Motamedi, 1977
	Boundary Expansion	Organization is able to expand its boundary (BOE1)	Motamedi, 1977
		Organization is able to expand its boundary (BOE2)	Motamedi, 1977
Organizational Routine	SOP	Organization has manuals to help with the routine problem (SOP1)	Baum and Wally (2003)
		Personnel must follow formal procedures for non-routine process (SOP2)	Baum and Wally (2003)
		Personnel can get information without escalating through channels (SOP3)	Baum and Wally (2003)
		There are no written instruction for doing non-routine task (SOP4)	Baum and Wally (2003)
	Comprehension	Personnel knows factors which interfere with operations reliability (COM1)	McGrath (2001)
		Personnel know factors which interfere with output quality (COM2)	McGrath (2001)
		Personnel knows the major bottlenecks preventing improved operations (COM3)	McGrath (2001)
	Continuous Improvement	Organization has a regular plan on improving their capacity (IMP1)	Peng, et al., (2008)
		Organization has improved to the business needs (IMP2)	Peng, et al., (2008)
		Personnel has improved their work as time goes by (IMP3)	Peng, et al., (2008)
	Degree of Freedom	Personnel do not have to follow strict procedures (DEF1)	Varotto and Laurendo (2013)
		Personnel is able to work outside routine (DEF2)	Varotto and Laurendo (2013)
		Personnel is allowed to do their work differently (DEF3)	Varotto and Laurendo (2013)
Organizational Agility	Proactiveness	Organization is constantly keep current with new technology (PRO 1)	Lu and Ramamurthy, 1998
		Organization is constantly seek new ways to enhance the effectiveness of organization (PRO2)	Lu and Ramamurthy, 1998
	Radicalness	Organization is able to scale up or scale down the service levels to support fluctuation in market demand (RAD1)	Lu and Ramamurthy, 1998
		Whenever there is a disruption, organization is able to make necessary alternative arrangements and internal adjustments (RAD2)	Lu and Ramamurthy, 1998
	Responsiveness	Organization is quick to make and implement appropriate decisions in the face of market change (RES1)	Lu and Ramamurthy, 1998
		Organization is quick to make and implement appropriate decisions in the face of consumer change (RES2)	Lu and Ramamurthy, 1998
	Adaptiveness	Organization is constantly look for ways to reinvent/ reengineer the organization to better serve the marketplace (ADT1)	Lu and Ramamurthy, 1998
		Organization is able to capture opportunities clearly (ADT2)	Lu and Ramamurthy, 1998

their internal structure to respond to the external factor [7]. This might be an indication that external pull has a significant impact on the overall organization process.

Research by [21] also hints that agility does not mean that the organization should change its structure but be able to maintain its internal structure.

4.2. Copability vs Adaptability's impact on Organizational Routine

Routine has some positive impact on the organization. Working on specific work consistently will trigger the organization to induce organizational learning [8, 9, 10]. Furthermore, implementing organization routine will also store the capabilities and knowledge of the respective organization, improving their organizational memory [16]. All the stated information will induce the organization to gain stability in their organizational matters. Having stability will provide them ability to retain their internal value, and to be able to cope with the changes that come from within [17, 18]. From this, we see that internal coping mechanisms will influence the organization to not respond to external factors [7].

4.3. Organizational Agility and Organizational Routine impacts toward team performance

The first stream of literature argues that agility has a positive factor towards team performance. Ability to change the structure to follow and maintain the edge in the competition. However, keeping up to the changes might result in the organization to stray from the organizational vision [21].

Although the first stream has convincing arguments, other views argue that organizations should maintain their operation on a routine basis in order for the company to outperform others [8, 9, 10]. Organizational routine will induce the organization to learn from their process and to improve accordingly. However, maintaining an organization routine might also lead the firm or the team to a series of disadvantages, such as inertia [11], mindlessness [12], deskilling [13], demotivation [14], and competency traps [9].

5. DISCUSSION

As mentioned in the first part of the study, we are able to see that the paradoxical relationship exists within the discussed variables. First, when we observe how internal and external factors affect an organization's operational capability, we can see that copability-adaptability is affecting both organizational routine and organizational agility if we put one factor and put others aside. However, taking both routine and agility simultaneously, we can see that both factors will contradict when we are looking at the factor independently.

Regarding organizational routine or organizational agility, we can see that the research conducted by [3] shows that organizations that have been established for relatively long time need to both maintain their routine and also be agile at the same time. Taking the factor

independently, we can see that each factor has both strength and weakness, but taking both altogether will offset the flaws. In spite of this, empirical results are needed on which factor induces better improvement.

6. CONCLUSION

This study focuses on conceptual models that capture paradoxical relationships between various factors. First paradox is the change-determining factor that organizations have to decide, whether to maintain their internal identity or to follow the external environmental factor [7]. The next paradox is how the organization has to operate, whether they have to maintain their routine organization to induce organizational learning [8, 9, 10] or to be able to adapt to the environment to have the competitive edge [22]. Empirical results are unable to be presented in this study due to the limitation of this research being a conceptual research. Therefore, empirical research should be made. This research can be expanded further by exploring various other paradoxes in organizations, or to change the scope into another industry.

REFERENCES

- [1] M. W. Lewis, "Exploring paradox: Toward a more comprehensive guide," *The Academy of Management Review*, vol. 25, no. 4, pp. 760, 2000.
- [2] W. K. Smith, M. W. Lewis, "Toward a theory of paradox: A dynamic equilibrium model of organizing," *Academy of Management Review*, vol. 36, no. 2, pp. 381-403, 2001.
- [3] A. Hill, L. Mellon, J. Goddard, "How winning organizations last 100 years," *Harvard Business Review*, September 2018. <https://hbr.org/2018/09/how-winning-organizations-last-100-years>.
- [4] J. A. Chatman, J. A., F. J. Flynn, "The influence of demographic heterogeneity on the emergence and consequences of cooperative norms in work teams," *Academy of Management Journal*, vol. 44, no. 5, pp. 956-974, 2001.
- [5] M. S. Feldman, B. T. Pentland, "Reconceptualizing organizational routines as a source of flexibility and change," *Administrative Science Quarterly*, vol. 48, no. 1, pp. 94, 2003
- [6] J. H. Gittell, L. Weiss, "Coordination networks within and across organizations: A multi-level framework," *Journal of Management Studies*, vol. 41, no. 1, pp. 127-153, 2001.
- [7] K. K. Motamedi, "Adaptability and Copability: A study of social systems, their environment, and

- survival,” *Group & Organization Studies*, vol. 2, no. 4, pp. 480-490, 1977.
- [8] B. Levitt, J. G. March, “Organizational learning,” *Annual Review of Sociology*, vol. 14, no. 1, pp. 319-338, 1988.
- [9] J. G. March, “Exploration and exploitation in organizational learning,” *Organization Science*, vol. 2, no. 1, pp. 71-87, 1991.
- [10] F. Olivera, L. Argote, “Organizational learning and new product development: CORE processes,” In L. L. Thompson, J. M. Levine, & D. M. Messick (Eds.), *LEA's organization and management series, Shared Cognition in Organizations: The management of knowledge*, pp. 297-326, New York: Lawrence Erlbaum Associates Publishers, 1999.
- [11] J. Freeman, G. R. Carroll, M. T. Hannan, “The liability of newness: Age dependence in organizational death rates,” *American Sociological Review*, vol. 48, no. 5, pp. 692, 1983.
- [12] B. E. Ashforth, Y. Fried, “The Mindlessness of Organizational Behaviors,” *Human Relations*, vol. 41, pp. 305-329, 1988.
- [13] D. E. Leidner, S. L. Jarvenpaa, “The Information Age confronts education: Case studies on electronic classrooms,” *Information Systems Research*, vol. 4, no.), pp. 24-54, 1993.
- [14] D. R. Illgen, J. R. Hollenbeck, “The Structure of Work: Job Design and Roles,” In M. D. Dunnette, L. M. Houhgh (Eds.), *Handbook of Industrial and Organizational Psychology*, pp. 165-207, Consulting Psychologist Press, 1991.
- [15] K. S. Cameron, “Effectiveness as paradox: Consensus and conflict in conceptions of organizational effectiveness,” *Management Science*, vol. 32, no. 5, pp. 539-553, 1986.
- [16] G. P. Huber, “Organizational learning: The contributing processes and the literatures,” *Organization Science*, vol. 2, no. 1, pp. 88-115, 1991.
- [17] M. N. Zald, J. A. Baum, J. V. Singh, “A new paradigm for organizational studies?” *Contemporary Sociology*, vol. 23, no. 6, pp. 864, 1994.
- [18] H. E. Aldrich, M. Ruef, *Organizations Evolving*, 2nd Ed, SAGE Publications, 1999.
- [19] H. M. Weiss, D. R. Ilgen, “Routinized behavior in organizations,” *Journal of Behavioral Economics*, vol. 14, no. 1, pp. 57-67, 1985.
- [20] C. J. Gersick, J. Hackman, “Habitual routines in task-performing groups,” *Organizational Behavior and Human Decision Processes*, vol. 47, no.1, pp. 65-97, 1990.
- [21] D. Brosseau, S. Ebrahim, S., C. Handscomb, S. Thaker, “The journey to an Agile organization. McKinsey & Company,” <https://www.mckinsey.com/business-functions/organization/our-insights/the-journey-to-an-agile-organization>, 2019.
- [22] C. Battistella, A. F. De Toni, G. De Zan, E. Pessot, “Cultivating business model agility through focused capabilities: A multiple case study,” *Journal of Business Research*, vol. 73, pp. 65-82, 2017.
- [23] F. Capra, *The web of life: A new synthesis of mind and matter*, HarperPerennial, 1997.
- [24] H. R. Maturana, F. J. Varela, F. J., *The tree of knowledge: The biological roots of human understanding*, Shambhala Publications, 1987.
- [25] V. Sambamurthy, A. Bharadwaj, V. Grover, “Shaping agility through digital options: Reconceptualizing the role of information technology in contemporary firms,” *MIS Quarterly*, vol. 27, no. 2, pp. 237-263, 2003.
- [26] A. Davies, T. Brady, “Organisational capabilities and learning in complex product systems: Towards repeatable solutions,” *Research Policy*, vol. 29, no. 7-8, pp. 931-953, 2000.
- [27] Y. Lu, K. Ramamurthy, “Understanding the Link Between Information Technology Capability and Organizational Agility: An Empirical Examination,” *MIS Quarterly*, vol. 35, no. 4, pp. 931-954, 2011.
- [28] G. Lumpkin, G. G. Dess, “E-business strategies and internet business models,” *Organizational Dynamics*, vol. 33, no. 2, pp. 161-173, 2004.
- [29] D. Miller, P. H. Friesen, “Successful and unsuccessful phases of the corporate life cycle,” *Organization Studies*, vol. 4, no. 4, pp. 339-356, 1983.
- [30] S. A. Zahra, J. G. Covin, “Domestic and international competitive focus, technology strategy and company performance: An empirical analysis,” *Technology Analysis & Strategic Management*, vol. 6, no.1, pp. 39-54, 1994.
- [31] G. T. Hult, D. J. Ketchen, S. F. Slater, “Market Orientation and Performance: An Integration of Disparate Approaches,” *Strategic Management Journal*, vol. 26, pp. 1173–1181, 2005.

- [32] M. Tracey, M. A. Vonderembse, J. Lim, "Manufacturing technology and strategy formulation: Keys to enhancing competitiveness and improving performance," *Journal of Operations Management*, vol. 17, no.4, pp. 411-428, 1999.
- [33] Y. F. Jarrar, M. Zairi, "Best practice transfer for future competitiveness: A study of best practices," *Total Quality Management*, vol. 11, no. 4-6, pp. 734-740, 2000.
- [34] V. P. Rindova, S. Kotha, "Continuous "Morphing": Competing through dynamic capabilities, form, and function," *Academy of Management Journal*, vol. 44, no. 6, pp. 1263-1280, 2001.
- [35] M. Subramaniam, M. A. Youndt, "The influence of intellectual capital on the types of innovative capabilities," *Academy of Management Journal*, vol. 48, no.3, pp. 450-463, 2005.
- [36] B. T. Pentland, M. S. Feldman, "Issues in empirical Field studies of organizational routines," *Handbook of Organizational Routines*, 2005.