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## Service response to economic decline: Innovation actions for achieving strategic renewal<sup>☆</sup>

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### ABSTRACT

This paper develops process theory on how service firms deal with persistent economic decline and the practices they adopt to overcome it. It examines how a knowledge-based service activity – commercial archeology – attempts to overcome environmental constraints of increasing complexity and economic downturn, as it unfolded over an 8-year period. This longitudinal, multimethod field study illustrates how confronting an external crisis may actually lead surviving firms to attempt innovation actions, a critical factor in achieving organizational renewal. Findings suggest that the renewal ability of highly dynamic services hinges on which innovation activities firms select and adopt, whether they implement them effectively, and the consequences of such implementations. This article contributes to the development of theory about the role of organizational innovation in service adaptation by offering insight into the link between strategic renewal and innovation activities.

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### 1. Introduction

All business organizations experience external economic threats. Literature shows that firms that purposively address conditions of economic decline with operational and strategically planned actions have a better chance of renewal and sustainable success (McKinley, Latham, & Braun, 2014). Defined as a firm's ability to disrupt inertia by modifying or replacing its resource base to ensure long-term performance and survival (Agarwal & Helfat, 2009), several authors (e.g., Schmitt, Barker, Raisch, & Whetten, 2015) have emphasized the strategic renewal concept as a means to cope with decline. Studies document how financial, managerial, and operational actions enable firms to deal with external decline situations (Mone, McKinley, & Barker, 1998). Those studies typically address responses by manufacturing firms to short-term external threats (Ndofo, Vanevenhoven, & Barker, 2013). Less is known, however, about how services, particularly knowledge-based service providers

(Castellacci, 2008), fare in the face of external crisis and the practices they adopt to overcome it. Due to the distinctive nature of its business and organization, services may deploy specific innovation actions that entail strategic renewal. These strategic transformations become even more relevant amid persistent economic depression, during which incremental actions might not be enough to guarantee firm survival (Schmitt et al., 2015).

Most of the empirical literature in the field has focused on identifying relationships between crisis and specific management actions (resource acquisition, product re-positioning and service output) (e.g., Bohman & Johansson, 1998). Focusing on the strategic renewal processes associated with economic threats offers the opportunity to examine how service innovation – encompassing product, process, and organizational innovations – facilitates adaptation and renewal. This raises the following question: *In knowledge-based services, what is the nature and dynamics of strategic renewal activities in coping with economic turbulence and uncertainty?*

Spanish commercial archeology is the empirical context of the analysis. This paper reports longitudinal field research on innovation initiatives leading to service renewal of Spanish archeological firms. Our mixed method approach combines qualitative and quantitative data drawn from different sources (in-depth interviews, survey data, archival data, and qualitative case comparisons) and at different times (2005–2013) in the same design, together with a participatory approach that relies on expert opinion (Shah & Corley, 2006). Commercial archeology is characterized as science-based, human-capital intensive (Miozzo & Soete, 2001), and advanced-knowledge provider (Castellacci, 2008). It is a recent activity that emerged after the

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introduction of private sector principles into archeological services (from excavation, restoration, and preservation to management and display of cultural heritage). Before the global financial crisis in 2008 (Guillen & Suarez, 2010), construction-related activities (housing certification) accounted for a sizable proportion of profits, whereby cultural heritage management was funded by public agencies. Soon after the crisis broke out, margins were compressed. Spanish archeological industry experienced an unremitting downturn during 2008–2012 with about 50% of firms exiting the market.

To address our research question, we apply process theorization (Langley, 1999) to the strategic renewal framework grounded in the work of Agarwal and Helfat (2009). Process theorization facilitates understanding how (and why) events develop over time by means of conceptualizing and detecting patterns among the events under study. Thus, a process theory of strategic renewal applies as a response of archeological firms to decline, since the underlying framework is evolutionary in nature.

The unique contribution of this paper lies in providing evidence of within-industry heterogeneity in strategic renewal efforts and outcomes. It shows how certain archeological firms respond to environmental scarcity by means of discontinuous transformations that help reinvent their service offering. A crucial element of these responses is their reliance on non-technological innovation, particularly organizational innovation (hereinafter OI) (Camison & Villar-Lopez, 2014). We propose that OI constitutes the main discontinuous transformation for services that face environmental turbulence and economic hardship over a sustained period. The implications of this study are quite extensive, given that archeological firms, as advanced-knowledge providers, find themselves deeply affected by managerial challenges in terms of anticipating and reacting to changes in the environment, particularly in the treatment of cultural heritage as a commodity to generate added value (Castañer, 2013; Martin-Rios & Parga, 2015).

## 2. Literature

Adverse environmental conditions, including difficult-to-foresee external events or “competence-destroying change” (Volberda & Lewin, 2003), such as changes in customer demand or persistent economic downturn, pose severe challenges to industries and firms. Organizations face dramatic shifts in its external economic environment that render existing strategies ineffective and lead to decline. Organizational decline refers to whenever a firm's performance or resource base deteriorates over a sustained period (Mone et al., 1998). Strategic renewal enables organizations to innovate and adapt by fundamentally altering aspects of its strategy and organization. Agarwal and Helfat's (2009) theoretical model of strategic renewal included incremental and discontinuous renewal activities. Incremental renewal includes experimentation and incremental alterations to some particular firm's core businesses. Strategic renewal further encompasses discontinuous strategic transformations. These include replacing multiple dimensions, including the business model, resources and capabilities, technological base, organizational structure, and organizational identity.

Research shows that incremental actions alone are insufficient to spur renewal (Chowdhury, 1996). In contrast, transformation actions are the driver of strategic renewal in the aftermath of an economic slump (Makkonen, Pohjola, Oikkonen, & Koponen, 2014). Research investigates innovation practices as one strategically planned action (Martens, Matthysens, & Vandenbempt, 2012). These studies focus on technological change initiatives related to new products, processes, and R&D activities in manufacturing firms (Kim & Pennings, 2009). Longitudinal research examining service decline and renewal is still in its infancy. Little theoretical headway has been made in this area; there is scarce evidence on how knowledge-based services respond to adverse external conditions, and in what ways innovation effects strategic renewal.

### 2.1. Organizational Innovation and decline

Empirical evidence on the renewal of services is limited. Research points out the relevance of innovation capabilities, in terms of changes in organizational practices, leadership, or external relationships (Jimenez-Jimenez & Sanz-Valle, 2011). For example, Zuñiga-Vicente and Vicente-Lorente (2006) suggested that, in services, innovation diversification was negatively associated with organizational failure. Service innovation includes a range of innovative activities from technological (product and process) to non-technological, OI conceptualized as the introduction of a new practice, process or structure that improves the effectiveness or performance of the adopting firm (Birkinshaw, Hamel, & Mol, 2008). These include the adoption of new ways of organizing work processes, alternative ways of managing employees, and fostering internal and external relationships (Armbruster, Bikfalvi, Kinkel, & Lay, 2008). The literature claims that the adoption of technological innovations alone cannot sustain service competitiveness; the full benefit of those innovations is only achieved if specific OI is also adopted (Ettlie & Rosenthal, 2011; Martin-Rios & Parga, 2015). Successful OI is challenging as it questions existing practices and ingrained assumptions about the status quo (Frambach & Schillewaert, 2002). It is also far-reaching, difficult to imitate, and a potential source of competitive advantage for services (Camison & Villar-Lopez, 2014; Ganter & Hecker, 2013, 2014; Hervas-Oliver & Sempere-Ripoll, 2015).

Addressing the adoption of innovation pathways is critical to understanding how service firms respond to environmental crisis and attempt renewal. This is especially the case for added-value services, which are remarkably sensitive to economic and environmental dynamics. These businesses supply science- or knowledge-based services, involving high levels of service and organizational interdependence (Castellacci, 2008). For companies that provide advanced-knowledge services, renewal may relate to innovation activities. However, in the absence of previous studies, the process of service renewal in the context of economic downturn to affect remains to be determined.

## 3. The research process

### 3.1. The research case

The preservation of cultural and heritage assets became crucial after the huge destruction of such elements in the two World Wars and the passing of international accords, such as the European Valetta Convention (1992) to protect and manage heritage assets. Countries implemented a model of heritage management in line with their specific context and resources based on one of two main models. One is the “public management model” in use in the majority of industrialized countries, and the other is the commercial or “mixed management model”. The former gives priority to conservation actions by the public authorities and non-profit organizations (as is the case in France or Greece), while the latter rests on private initiative under the supervision of the governmental authorities. This commercial model is firmly established in Anglo-Saxon countries (Aitchison, 2009) as well as in Spain, where private initiative has only taken place recently.

In Spain, national economic prosperity during the first half of the 2000s, coupled with the professionalization of the activity, resulted in the creation of an unprecedented number of new archeological firms (nearly double the number of companies compared with the US and UK). Early success, or a jump-start, in commercial archeology was mainly due to the passage of the Historical Heritage Law (1985) that requires to obtain legal permission (certification) prior to any intervention in the field, and the construction boom in 2000–2006, which led to an exponential increase in the demand for certifications. Whereas construction activity represented, on average, 7.7% of Spain's GDP in 1980–1990, it reached its peak in 2006 accounting for more than 12% of GDP. Enforcement of the law during the construction surge helped commercial archeology to flourish; public administrations handed certification over

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