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Exploring the microfoundations of servitization: How individual actions overcome organizational resistance

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ABSTRACT

Servitization research has principally focused on the transition of organizational-level strategy, systems, capabilities, and processes for firms to be able to offer advanced services to their customers. Less is known of the underlying microfoundational dynamics of such transitions at the individual-level. Based on a multiple case study of six large multinational industrial firms engaged in servitization efforts, this paper identifies the tactics (i.e., evangelizing, bootlegging, leveraging, and collaborating) that individuals adopt to overcome organizational resistance to servitization. This study also presents the conditions that are necessary for individual employees to adopt these tactics. The present study provides theoretical and practical implications of the microfoundations of servitization, focusing attention on individual-level actions that affect the outcomes at the organizational-level to drive servitization efforts.

1. Introduction

Manufacturing companies across numerous industries are moving toward providing advanced services to their customers (Kowalkowski, Windahl, Kindström, & Gebauer, 2015; Martinez, Bastl, Kingston, & Evans, 2010; Reim, Parida, & Sjödin, 2016). Several factors, including product differentiation, competitive advantage, new and recurring revenue streams, and profitability, have driven this organizational change (Kowalkowski, Gebauer, & Oliva, 2017; Lenka, Parida, & Wincent, 2017; Oliva & Kallenberg, 2003). This transformational process is known as servitization (Baines et al., 2017; Vandermerwe & Rada, 1988). In practice, though, this transition toward more advanced services is often challenging for manufacturing companies (Kowalkowski et al., 2015; Lightfoot, Baines, & Smart, 2013). These companies face resistance to this transition, and many fail in their efforts to provide advanced services.

Researchers have reported many firms' failure to achieve servitization goals because service provision requires a shift from the existing product-oriented perspective to a more service-oriented approach (Bowen, Siehl, & Schneider, 1989; Storbacka, Windahl, Nenonen, & Salonen, 2013). Adopting a service-oriented approach entails significant organizational change from top to bottom, which affects individuals, teams, units, and the organization. This organizational change results in innumerable complexities and conflicts that lead to

resistance, which organizations must manage or mitigate to ensure successful servitization efforts (Huikkola, Kohtamäki, & Rabetino, 2016; Turunen & Toivonen, 2011). The organizational change literature acknowledges that much of the resistance to change within organizations arises from individuals who oppose any change in the status quo. Therefore, the key to overcoming resistance to change lies in addressing the issues and challenges at the individual level (Jones, 2004; Lawrence, 1973). This calls for a deeper understanding of the role that individuals play during servitization.

Although significant contributions have been made to the servitization literature, there is a lack of knowledge of the microfoundations or the individual-level focus on how to respond to organizational-level resistance to servitization. This gap in the knowledge is significant for several reasons. First, interactions among individual tactics at the micro-level lead to collective organizational-level outcomes. Therefore, individual tactics play a vital role in a firm's ability to attain organizational-level goals (Felin, Foss, & Ployhart, 2015). Second, focusing on the individual could clarify how change emerges under the influence of individual agency. Indeed, it is individuals who search for and identify valuable opportunities for new services and then champion their development and use within the firm. Finally, understanding how resistance to servitization emerges and how individuals within the firm cope with this resistance is crucial for understanding the overall change process during servitization. Servitization studies have focused on

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various firm- and network-level issues to explore resistance to servitization (Martinez et al., 2010; Parida, Sjödin, Wincent, & Kohtamäki, 2014). However, insight into how individuals, who are central to servitization, influence this transformation is lacking. Therefore, the purpose of this study is to advance our understanding of how individuals respond to organizational resistance and drive servitization efforts in manufacturing firms.

By presenting a case study of six large industrial firms that successfully provide advanced services to their customers, we contribute to the servitization and microfoundation literature in several ways. First, we identify micro-level, individual response tactics that individuals employ to overcome resistance to servitization initiatives. This finding highlights the critical importance of understanding the role of individuals in servitization (Felin et al., 2015; Finne, Brax, & Holmström, 2013). Second, we outline the conditions for individuals to adopt such tactics in servitization firms. Identifying these conditions furthers our understanding of when and why individuals adopt such tactics to support servitization initiatives in firms. This finding thereby contributes to the nascent discussion on the motivation and cognitive responses of individuals during a servitization process (Gebauer, Fleisch, & Friedli, 2005). Finally, we extend the microfoundation theory in the context of servitization, depicting the micro–macro interaction effect (i.e., the effect of individual-level actions on firm-level outcomes in servitizing firms).

2. Literature review

2.1. Servitization, change, and organizational resistance

Organizations constantly face the challenge of transforming themselves to adapt to their increasingly dynamic environment. To meet this challenge, organizations must change their strategy, culture, structure, and processes (Al-Haddad & Kotnour, 2015; Galbraith, 2002). One example of such a transformation is servitization, whereby manufacturing firms transition from product manufacturers to providers of service offerings to customers (Baines et al., 2017; Baines, Lightfoot, Benedettini, & Kay, 2009; Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988). Extensive organizational change and organizational change management research has shown that resistance is the foremost challenge faced in transforming firms (Kotter & Schlesinger, 2008; Rafferty & Jimmieson, 2016; Van de Ven & Poole, 1995). However, most firms that are engaged in servitization continue to struggle with resistance to change, which emanates from organizational inertia due to structural rigidity, ambiguous processes, a lack of capabilities, ineffective incentives, and a lack of buy-in from employees (Bailey & Raelin, 2015; Bravo, Matute, & Pina, 2017; Hannan & Freeman, 1984).

The servitization literature identifies varying degrees of organizational-level resistance faced by manufacturing firms in their transition to becoming service providers (Brax, 2005; Gebauer, Edvardsson, Gustafsson, & Witell, 2010; Lightfoot et al., 2013). The servitization and change management literature cites four types of organizational-level resistance during servitization: resistance related to strategy, culture, structure, and processes (Table 1). Strategic resistance to servitization is primarily attributed to the change that is required to move from a transactional to a relational business model (Ferreira et al., 2013; Reim et al., 2015). This change entails a shift in the overall outlook on market and financial performance, which causes individuals to become wary of servitization efforts (Neely, 2009; Parida et al., 2014). Cultural resistance is mostly due to a greater emphasis on relational value creation (Martinez et al., 2010) through customer problem solving, which often clashes with traditional engineering-based, product-focused cultures (Brax, 2005; Gebauer et al., 2012). Structural resistance emerges because of the shift from a traditional centralized control structure to a decentralized structure, where frontline and regional organizations are more empowered to take decisions (Neu & Brown, 2008). Also, traditional structures built around product development and sales must be

reoriented to address customer requirements through cross-functional efforts (Gebauer & Kowalkowski, 2012; Turunen & Toivonen, 2011). Procedural resistance emerges because of the greater need for processes that intimately involve customers and network partners as co-creators of value (Huikkola et al., 2016; Lenka et al., 2017; Sjödin, Parida, & Wincent, 2016). Introducing new processes such as integrated product–service development processes, which involve merging two traditionally separate development processes (Kindström & Kowalkowski, 2009; Parida et al., 2015), also creates friction within the organization. All such organizational resistance prevents manufacturing firms from successfully adopting servitization. To understand how to address servitization resistance, however, specific focus on microfoundations or individual-level responses might be important because such a focus might unearth the missing link between an organizational shift toward servitization and the successful adoption thereof.

2.2. Understanding the microfoundations of servitization: individuals and their actions

The tenets of microfoundations have received strong support in the strategy and organization literature (Felin & Foss, 2005; Martinkenaite & Breunig, 2015). The focus of this literature has been “to unpack collective concepts to understand how individual-level factors impact organizations, how the interaction of individuals leads to emergent, collective, and organization-level outcomes and performance, and how relations between macro variables are mediated by micro actions and interactions” (Felin et al., 2015, p. 576). It is important to understand the individual level because to do so provides insights into the underlying dynamics that help explain the link between lower-level origins and higher-level outcomes. In servitization, insights from the study of microfoundations may shed light on the way individual-level actions mitigate resistance to servitization.

In its simplest form, an organization is an aggregation of individuals and their actions. Behavioral research in the context of the firm has tried to explain the role of individuals in influencing organizational outcomes (Gavetti, Levinthal, & Ocasio, 2007). Individuals, as managers and workers, affect how the organization behaves, which is ultimately reflected in the organization's performance (Groysberg & Lee, 2009; Zucker & Darby, 2001). In the servitization literature, however, very little is understood regarding how individual tactics in response to resistance affect servitization efforts in the firm. Individuals' capabilities and choices are pivotal in understanding individuals' actions that collectively manifest themselves as outcomes at the organizational level. Although rationality of individuals is seen as the cornerstone of their actions, individuals' values, preferences, and beliefs greatly affect the tactics these individuals adopt (Felin & Hesterly, 2007; Zenger, 1992). Moreover, individuals' relational ability (i.e., the ability to interact and engage with others) and integration ability (i.e., the ability to make sense of differing elements such as knowledge and artifacts) also play an important role in individuals' choice of tactics and consequently the outcomes within the organization (Felin et al., 2015). Therefore, in a servitizing firm, where individuals face multiple fronts of resistance, the varying beliefs, goals, human capital, and relational and integrating abilities of individuals should affect their choices and ultimately the tactics they adopt to respond to resistance.

A few servitization studies have suggested that employees in provider firms need to adapt their roles to become advisors and problem solvers and act as consultants for customers when offering advanced services (Gebauer et al., 2010; Ploetner, 2008). Additionally, Gebauer et al. (2005) and Ulaga and Loveland (2014) have outlined few of the managerial motivation factors that support servitization within firms. Beyond this, however, not much is known about the way individuals experience resistance to servitization and how their personal characteristics or external conditions affect their adoption of specific tactics that contribute to organizational-level outcomes that hinder or support servitization efforts.

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