



The organisational environment's impact on the servitization of manufacturers



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ABSTRACT

The transformation of product-centric businesses towards service provision is claimed to be a viable strategy for manufacturers across industries and sectors. However, previous research on servitization has not paid sufficient attention to explicitly investigating its suitability for manufacturers operating in different organizational environments. Accordingly, the purpose of this study is to establish propositions on the contingency factors in the organizational environment that affect the servitization of manufacturers at the industry level. Drawing on the theory of organisational ecology, the propositions include the effects of population density, competing populations, resource dependency, institutional linkages, technology, and political forces. Our study suggests that the operating environment explains at least part of the difficulties in the servitization process, which have been identified in previous studies, but whose causes have remained without full explanation. The study adds to the current understanding of the contingencies of transformation toward service provision and contributes to the managerial decision-making processes related to servitization.

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Introduction

Competition in a variety of industrial sectors has intensified in recent years, partly due to the growth of the emerging economies in Asia and the Middle East. To cope with this challenge, many industrial manufacturers in western economies have responded by focusing increasingly on their customers, seeking to innovate and create products and services that meet customers' needs more comprehensively to avoid competing solely on a cost basis (Porter & Ketels, 2003). The transformation of a manufacturer's business strategy towards increasing service provision is conceptualized as 'servitization'. In the previous literature, servitization has been suggested as a viable strategy for manufacturers across industries (Baines, Lightfoot, Benedettini, & Kay, 2009a; Baines, Lightfoot, Peppard, et al., 2009c; Oliva & Kallenberg, 2003; Wise & Baumgartner, 1999). However, we see it compelling to ask whether servitization can be seen as an advisable strategy for manufacturers throughout developed (post-industrial) economies. Also, it would be interesting to see how the differences in operational environment between countries and industries influence the possibilities to servitize. These questions have not received sufficient attention in the industrial management literature to date, as most of the

servitization research (cf. Baines et al., 2009a; Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988) perceives increasing service provision as an applicable strategy for all manufacturers, irrespective of the industrial sector or operating environment.

The aim of the present study is to identify the effects of different organisational environments on the servitization of manufacturing. We suggest that whether a given organisational form or strategy is superior to another depends upon the structure of the organisational environment. Our arguments are derived by applying ecological-evolutionary theory (organisational ecology) to the analysis of the servitization phenomenon (Hannan & Freeman, 1989). We suggest that organisational ecology (Hannan & Freeman, 1984, 1989) can add value to the servitization discussion, as servitization embodies a large-scale structural change that is taking place in most developed countries. In doing so, our study aims to advance the servitization discussion by performing a conceptual analysis of the phenomenon through the theoretical lens of organisational ecology. Thus, we apply a well-recognised population level organisation theory to analyse servitization that has previously been discussed in the fields of marketing and operations management almost exclusively in organisation level investigations. In contrast, the aim of the present study is to explore, on an industry level, the effects of the contingencies of the organisational environment on servitization. We suggest that the ability of an industrial organisation to transform its business strategy towards service provision depends upon the organisational

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environment. The following research question guides the study: *How does the operational environment affect servitization at the industry level?*

To address this crucial question, we conceptually analyse factors in the organisational environment utilizing the perspectives of organisational ecology. Leaning on the selected theoretical perspective, we identify the differences in environmental conditions among various industries and explain how these conditions affect the servitization of manufacturers. To this end, we aim to explain previous empirical findings on firms having a number of pathways through which to achieve servitization (Finne, Brax, & Holmström, 2013; Turunen, 2011a). We focus on populations of organisations in which individual companies are performing in both product and service businesses. Moreover, we analyse organisational entries into and exits out of the servitized populations. In particular, we address the causes of these entries and exits. In this study, entries are defined as a manufacturer's move towards offering product-related services or the establishment of a new manufacturer offering product-related services, while exits are defined as a manufacturer's discontinuation of offering product-related services. The servitization literature has mainly focused on entries of organisations, and exits have received very limited attention.

The paper is structured as follows. We begin with a literature review on the servitization of manufacturers. We present the choice of theoretical lens through comparing the applicability of possible organisational theories for our analysis. In the third section, we introduce the key concepts in organisational ecology and contrast these concepts to the servitization phenomenon. Then, we define the servitized population. Thereafter, we move onto presenting the possible modes of entries and exits in the servitization context. In section four, we discuss the effects that the organisational environment has on the servitization of an industry. Our work establishes links between the theory of organizational ecology, servitization phenomenon, and illustrative case examples (cf. Siggelkow, 2007). The fifth section is devoted to discussion of the implications of our research for research and managerial practice. Finally, we provide suggestions for further research.

Theoretical background

The phenomenon under analysis: the servitization of manufacturing

Servitization refers to the transition process of adding services into a goods-based offering, where the importance lies in the relationship between the corporation and the customer. Instead of viewing services and goods from a traditional point of view, servitizing companies offer bundles of products and services (Vandermerwe & Rada, 1988). The phenomenon was recognised by academia and in 1988, Vandermerwe and Rada introduced the concept of 'servitization' to describe it. Initially, the marketing perspective (DeBruicker & Summe, 1985; Hull & Cox, 1994; Lele & Karmarkar, 1983) was emphasised in the literature, and the focus was transitional (Martin & Horne, 1992; Oliva & Kallenberg, 2003; Wise & Baumgartner, 1999). Thereafter, the operations management perspective (Armistead & Clark, 1991; Goffin & New, 2001; Loomba, 1996) has also gained attention with the most recent studies viewing the phenomenon from a supply network perspective (Lockett, Johnson, Evans, and Bastl, 2011; Bastl, Johnson, Lightfoot, & Evans, 2012; Finne & Holmström, 2013). Recent literature emphasises the reasons for servitizing: economic potential, customer needs/satisfaction, and the competitive advantage that services can provide (Van Dierdonck, 1992; Anderson, Fornell, & Rust, 1997; Davies, 2004; Davies, Brady, & Hobday, 2006; Martinez, Bastl, Kingston, & Evans, 2010; Shepherd & Ahmed, 2000; Lockett et al., 2011).

Although the literature presents servitization as a reasonable way to achieve competitive advantage, it also acknowledges that this type of strategy implies major challenges. Neely's (2008) findings suggest that larger firms find it especially difficult to achieve the financial benefits of servitization (see also Gebauer & Friedli, 2005). Gebauer, Fleisch, and Friedli (2005) refer to the phenomenon of increased service offerings and higher costs without higher returns as the 'service paradox in manufacturing companies'. Flaws in managerial actions and strategic decision-making have been suggested to be causing these challenges (Gebauer et al., 2005). However, more research is needed in order to gain a thorough understanding of how the context affects the challenges of servitization (Brax & Jonsson, 2009).

Due to the strong managerial focus, servitization has been perceived as a somewhat linear process (Oliva & Kallenberg, 2003). However, recent empirical research (Finne et al., 2013; Turunen, 2011a) has pointed out that the servitization paths of individual manufacturers can be contradictory to those presented in the dominant servitization literature. Finne et al. (2013) presented an empirical case of a servitized manufacturer that was forced to take a significant step away from offering advanced services because of a change in product technology. Turunen (2011a) showed, instead, that there are several means to servitize, with acquisitions and mergers seeming to be among the successful ones. We suggest that environmental conditions can have a role in explaining these differences in the servitization paths.

The previous literature on servitization has attempted to position manufacturers as redefining their position along a product-service continuum (Oliva & Kallenberg, 2003) over time. The focus of analysis has often been laid on the characteristics of the transformation toward increasing service provision (Baines, Lightfoot, & Kay, 2009b; Baines et al., 2009a; Gebauer, 2008). From early on, the servitization literature has adopted a focal-company perspective, with emphasis on managerial and strategic decision-making. We agree that servitization can be seen as a manifestation of organisational change: manufacturing companies transform their operations towards greater service provision. This leads to several modifications in the organisational structure (Turunen, 2013) and in the way of delivering value and dealing with customers and stakeholders (Johnstone, Dainty, & Wilkinson, 2009). To complement the decision-making viewpoint, we emphasise the importance of understanding how organisational change is perceived in literature.

Regarding organisational change, there is always the challenge of defining the scope of change that happens in organisations, especially when the unit of analysis is not a single organisation, but a population of organisations. This problem is also recognised in the servitization literature. Kinnunen and Turunen (2012) questioned organisation-wide servitization, but instead offered a framework that has allowed for the examination of different divisions in relation to servitization. They introduced the term 'partial servitization' to reflect the idea that the organisation does not necessarily change as a whole, but divisions that are most eligible for transformation are changing. In other words, the change happens in organisational units or divisions and realises itself in the way that this division deals with customers (from transactional to relational), in its offerings (from products to a combination of services and products), in the way it delivers value (through material products and through services), by earning logic (from single transactions to contracts), and finally, in organisational structure (Turunen & Toivonen, 2011).

Studies on the alignment of manufacturers' service strategies with different environments have been infrequent, and few researchers have considered the business environment as a factor that impacts strategy selection. As forerunners, Gebauer and his colleagues studied the service strategy-environment fit (Gebauer,

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