



Service implementation in manufacturing: An organisational transformation perspective



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ABSTRACT

The topic of servitization of manufacturing continues to gain attention from both the engineering and business research communities. As a consequence, the conceptual foundations of servitization are now becoming better established, and attention is focusing on the processes through which manufacturers go to develop innovative service capabilities that enable them to successfully compete through services. This Special Issue sets out to focus on these transformation processes. In this introductory article we review the selected articles that comprise this Special Issue. We provide a framework to contextualize and understand the research findings reported in the Special Issue and reflect on the contributions of the research to the theory and practice of servitization. Through this process we seek to consolidate the state-of-the-art in this area and identify important, challenging, but potentially fruitful topics for future studies.

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1. Introduction – the servitization landscape

Today more and more manufacturers are competing, to a greater or lesser extent, through a portfolio of services (Crozet and Milet, 2017). They are leveraging their business strategies on the capability enabled by technological innovation to allow a better engagement with customers and suppliers through the implementation of services, in addition to product offerings (Cusumano et al., 2015). Different strategies can be pursued for achieving this. Some manufacturers build their services business by offering an ever greater variety of *intermediate services*, such as maintenance, condition monitoring, overhaul or repair, and re-manufacturing (Baines and Lightfoot, 2013). Others are innovating more *advanced services* such as Power-by-the-Hour (Rolls-Royce), Document Management (Xerox) and Trucknology (MAN Bus and Truck). Both forms of services can generate growth in revenue and profit for the host manufacturer (Lee et al., 2016), but the transformation pathways for achieving these can differ significantly (Kindström, 2010; Gebauer et al., 2012). This Special Issue addresses why and how manufacturing organisations move into services and the implications of doing so.

Servitization pathways can be expressed in various ways, with one popular approach being to link to the extension of product life-cycles (Fig. 1). For example, a *product-centric* firm may

compete without developing and delivering any product-related services, and accept that market share may reduce as the product lifecycle matures and competitors' offer starts to be more attractive to consumers. Alternatively, *product incremental innovation* may be applied to extend the product lifecycle and continuously innovate to maintain the market share (Lee and Malerba, 2017). A third strategic option is to extend the product lifecycle through the inclusion of services (Cusumano et al., 2015).

Service implementation frequently involves technology-enabled business models developed through in-depth understanding of customers' needs (Bustinza et al., 2017). Advanced services in particular lock in consumers for long periods of time and may increase profit margin (Visnjic et al., 2016). However, the inclusion of services is not a risk free strategy as the shift from offering products to offering products and services is complex and may damage shareholder returns in the short run (Suarez et al., 2013; Benedettini et al., 2015). On top of this, advanced services require holistic organisational transformation (Tukker, 2004; Ulaga and Reinartz, 2011; Baines and Lightfoot, 2013; Baines et al., 2017). However, the potential uncertainties involved in such transformation could explain why product firms in some leading industries show reluctance to transform their organisations towards a service-oriented business (Financial Times, 2017), and why General Electric and Siemens are seeking to develop complex

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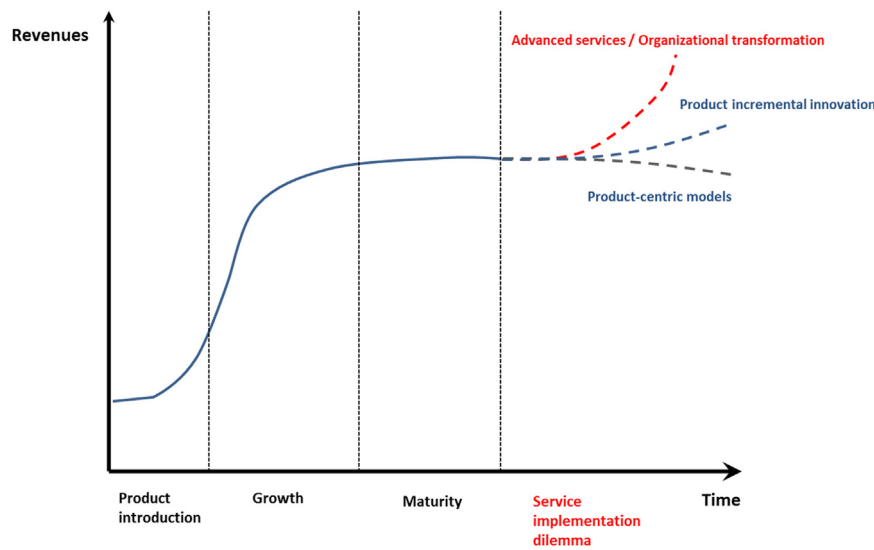


Fig. 1. The service implementation dilemma.

cloud platforms to support and guide small and medium manufacturers during their service journey (Wall Street Journal, 2017).

Although the literature on service implementation is growing fast, there is a lack of connection between the topics analysed by scholars and those that are of relevant for practitioners (Baines et al., 2017). The current academic literature on servitization and advanced services describes the phenomenon, provides some theoretical grounding, tests the relationship between service implementation and firm performance, and relates this strategy to a number of external and internal factors (Neely, 2008; Visnjic and Van Looy, 2013; Visnjic et al., 2015; Crozet and Millet, 2017; Kowalkowski et al., 2017). What practitioners are looking for, in contrast, relate to the challenges linked to the organisational change that a service strategy entails; the stages they need to follow, and what they should expect in each stage. Executives of product-focused manufacturers are eager to understand both the processes underlying the development, acquisition and exploitation of additional service capabilities and the different transformation trajectories that can boost the product-installed base value through the exploitation of service capabilities (Lee et al., 2016). With a few exceptions (Baines et al., 2017), the research community has not yet analysed the topic of organisational transformation in servitization. This special issue attempts to fill this gap. In preparing this, we have considered over fifty submissions and from these selected fourteen articles on a wide range of issues related to service implementation in manufacturing. Overall, the papers selected for publication in this issue contribute to understanding the manufacturers' context, the servitization journey followed, and the outcomes of the servitization change processes.

This editorial note provides an opportunity to position these contributions. To achieve this we first review crucial transformation frameworks, reflecting on the recent literature on servitization. We then provide an overview of contributions that increase understanding of service implementation as a process of organisational change, followed by the implications of the overview and suggestions for future lines of research.

2. Service implementation and organisational transformation frameworks

Servitization has been analysed as a process of transformation using different frameworks. Martinez et al. (2010) – updating previous frameworks from Davies (2003), Oliva and Kallenberg

(2003), Tukker (2004), and Araujo and Spring (2006) – argue that servitization is a continuum ranging from product with services as add-on's to complex firms' product-service offerings. The servitization continuum can be represented through four different stages related to the customer-supplier interactions, starting with primarily transactional interactions, followed by product-plus-service offerings and subsequent customisation of product and service bundles. The service continuum concludes with the development of product-plus-service solutions co-designed with customers. Building on the same line of thinking, the more recent work of Parida et al. (2014) outlines critical competencies and learning processes to transform product-based organisations to undertake service business models successfully. These critical competencies include add-on services, maintenance/repair and product-support services, research and development activities, and functional and operational services.

Baines and Lightfoot's (2013) framework further develops these initial archetypal models of service transformation by including the service capabilities required for overcoming the various critical junctures that firms face in the servitization journey. The framework contains a detailed description of the servitization roadmap to develop advanced services (solutions, outcome-based services, etc.), based on three stages. As depicted in Fig. 2, this process of organisational change is routed from businesses' engagement with product manufacturers to development of service-led competitive strategies while maintaining product economies of scale and scope, and ultimately the delivery of capabilities as an outcome, enabling a firm to achieve a unique competitive position.

We use this framework to organise the contributions of this special issue on servitization transformation. The articles by Hellier-Green et al., Lafuente et al., and Xing et al. in this special issue focus on how manufacturers leverage their service transformation relative to external businesses. In this vein, Hellier-Green et al. show that manufacturers must consider the role of the service business before journeying to services. Lafuente et al. show the importance of collaborations between service businesses and manufacturers located in the same region, and Xing et al. describe how Chinese manufacturers use cross-border mergers and acquisitions (M&As) to start the servitization journey.

Other articles in the special issue focus on the development of service-led competitive strategies. Whilst the articles by Burton et al., Clegg et al., Lütjen et al., Martinez et al., and Raja et al. study critical service-led strategies, the paper by Rabetino et al. describes manufacturers' strategy logic to continue toward successful

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