



Any way goes: Identifying value constellations for service infusion in SMEs

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ARTICLE INFO

Article history:

Received 4 March 2011

Received in revised form 28 June 2012

Accepted 4 August 2012

Available online 28 November 2012

Keywords:

Service infusion

Small- and medium-sized enterprises

Value constellation

Service strategy

Service transition

ABSTRACT

Manufacturing firms have always delivered services, by supplying spare parts, installing equipment, training employees, or performing maintenance. In competitive markets though, firms seek new ways to differentiate their business, including an increased focus on service, often referred to as service infusion. Of the studies that seek to understand this phenomenon, most focus on large multinational firms; little is known about service infusion in small and medium-sized enterprises (SMEs). This study adopts an explorative approach to investigate how SMEs construct new value constellations that enable value creation through services. The findings, based on in-depth interviews with key informants from 13 SMEs, suggest that there is no predefined transition process for service infusion in SMEs, which seldom have the resources to build new organizational units or create new specialties. Instead, they differentiate themselves through new value constellations within business networks. The heterogeneity of service offerings and business networks means those value constellations take many forms.

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1. Introduction

Firms in various industries are finding that they can no longer succeed just by offering excellent products, traditional after-sales service, and logistics. To differentiate themselves from their competitors, manufacturing firms have begun to extend their range of service offerings and enhance their service orientation (Gebauer, Edvardsson, Gustafsson, & Witell, 2010; Martin & Horne, 1992). Such changes generally help firms achieve better returns on sales and improve their value (Fang, Palmatier, & Steenkamp, 2008). The resulting importance of services for manufacturing firms has prompted a newly named concept: “service infusion in manufacturing firms”¹ (Gustafsson, Brax, & Witell, 2010; Kowalkowski, Kindström, Alejandro, Brege, & Biggemann, 2012; Nilsson, Gustafsson, & Johnson, 2001; Ostrom et al., 2010).

Most studies of service infusion in manufacturing firms focus on large multinational firms (e.g., Davies, Brady, & Hobday, 2007; Gebauer & Kowalkowski, 2012; Raddats & Easingwood, 2010; Ulaga &

Reinartz, 2011), even though service infusion occurs in all types of supply chains (Löfberg, Witell, & Gustafsson, 2010; Matthyssens & Vandenbempt, 2008), including those for small and medium-sized enterprises (SMEs)² (Gebauer, Paiola, & Edvardsson, 2010). An empirical investigation of European manufacturing firms even concludes that small and medium-sized suppliers of components and subsystems are influenced by service infusion just as much as larger original equipment manufacturers (OEM) are (Lay, Copani, Jäger, & Biege, 2010). With their limited size and resources (Storey & Greene, 2010), SMEs may need different tactics if they are to benefit from service infusion in manufacturing firms; we know that they are affected differently than larger firms by an increased focus on service (Gebauer, Paiola, et al., 2010). Despite a few studies of service infusion in SMEs (Gebauer, Paiola, et al., 2010; Malleret, 2006), no explicit investigations consider how SMEs manage to infuse service into their business.

In particular, SMEs lack the necessary resources – staff, competences, facilities, and finances – to provide the services that their customers require. Considering their overall reliance on other firms in their network (Gebauer, Paiola, et al., 2010) and the resources needed to develop and provide new services (Fischer, Gebauer, Gregory, Ren, & Fleisch, 2010), we posit that SMEs depend heavily on actors in their business network to achieve success with service infusion. Previous research on service infusion has not really examined value creation in the broader network that surrounds a customer-supplier dyad (Matthyssens & Vandenbempt, 2008; Ulaga & Eggert,

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¹ The empirical phenomenon by which manufacturing firms increase their focus on service also has been referred to as the emergence of “product–service systems” (Stoughton & Votta, 2003; Tukker & Tischner, 2006) and “servitization” (Baines et al., 2009; Neely, 2008; Vandermerwe & Rada, 1988). We use “service infusion in manufacturing firms” to capture the empirical phenomenon, whose common denominator is the increased importance of service in the offering and organization of manufacturing firms.

² An SME is a firm that employs fewer than 250 employees (European Commission, 2003).

2006; Windahl & Lakemond, 2006). Yet firms are embedded in networks of interconnected relationships that form a web of interactions, and this network extends far beyond just two firms (Håkansson et al., 2009). Within the network, firms create value by configuring their portfolio of direct relationships into distinct, specific, and integrated structures (Corsaro, Ramos, Henneberg, & Naudé, 2012; Möller & Rajala, 2007), referred to as *value constellations* (Normann & Ramírez, 1993, 1994; Ramírez, 1999). Such value constellations could serve an important purpose in enabling SMEs to provide services.

This study considers these factors in an analysis of the challenges for an SME when working with service infusion, particularly due to their limited internal resources. Specifically, we investigate how SMEs construct value constellations through relationships with other firms to enable service provision. In-depth analyses of 13 SMEs from a wide variety of manufacturing industries indicate nine generic value constellations for service provision. The results imply there is no general, predefined transition process or value constellation that solves all service infusion challenges for SMEs. Rather, SMEs construct a variety of value constellations to operationalize their service strategies and provide service offerings to customers. Therefore, this study contests the established view that firms undergo specific phases during a service transition trajectory and that particular business models are especially suitable for service provision in a manufacturing context (Gebauer & Kowalkowski, 2012; Oliva & Kallenberg, 2003; Penttinen & Palmer, 2007; Wise & Baumgartner, 1999).

2. Theoretical framework

Service infusion is increasingly important for not just large firms but also SMEs. Their limited internal resources and comparatively weaker market positions already force SMEs to engage in value constellations with other actors in the business network; adding the challenge of service infusion likely requires SMEs to turn to their networks and value constellations. We describe six dimensions of service differentiation for value constellations.

2.1. Service infusion and SMEs

Service infusion refers to “an organization-wide embracement of a basic set of relatively enduring organizational policies, practices, and procedures intended to support and reward service-giving behaviors that create and deliver services excellence” (Lytle, Hom, & Mokwa, 1998, p. 459). It reflects the extents to which a firm focuses on service as its core offering and to which customers regard the organization as a service provider (Gebauer, 2008; Jacob & Ulaga, 2008). Firms with excellent products in a competitive industry can use service as a differentiator, so a common rationale for service infusion involves taking advantage of strategic, financial, and marketing opportunities (Gebauer, Gustafsson, & Witell, 2011; Oliva & Kallenberg, 2003).

In addition to the research focused on large manufacturing firms (e.g., Gebauer & Kowalkowski, 2012; Kowalkowski et al., 2012; Oliva & Kallenberg, 2003; Raddats, 2011; Raddats & Easingwood, 2010; Ulaga & Reinartz, 2011), a few studies have included both large firms and SMEs (e.g., Lay et al., 2010; Matthyssens & Vandembemt, 2010). The 195 firms analyzed by Gebauer (2008) and Gebauer, Edvardsson, et al. (2010) were predominantly large and medium-sized firms (250 or more and 50–250 employees, respectively). The focus in these studies is not to draw inferences about different actions based on firm size but rather to study the phenomenon in general.

But several key differences between large OEMs and SMEs must be taken into consideration when analyzing service infusion. Oliva and Kallenberg (2003) argue that manufacturing firms must enter the service market by serving the installed base, but this finding cannot transfer to SMEs, which usually sell through distributors, deliver through installers, and have limited access to their installed base. They tend to supply larger firms themselves (Löfberg et al., 2010),

and thus external providers usually are responsible for services related to the products, which further limits their access. To provide services, SMEs would need to revise their sales channels, motivate distributors to offer services, and arrange paybacks from customers to distributors and then from distributors to the SME (Gebauer, Paiola, et al., 2010).

Another obstacle is the need for a separate service organization with specific profit-and-loss responsibilities (Gebauer & Kowalkowski, 2012; Oliva & Kallenberg, 2003). It can be difficult to combine a service organization with a traditionally product-focused organization, which often will maintain its existing priorities. Yet SMEs probably lack the critical mass that a service business requires to be profitable on its own (Fundin, Witell, & Gebauer, 2012). In addition, a separate service organization adds complexity to an SME's structure, which creates higher coordination costs and limits flexibility (Kowalkowski, Kindström, & Witell, 2011). Finally, SMEs have fewer internal resources in terms of financing and skilled personnel compared with large firms (Storey & Greene, 2010), so they likely struggle with initiatives to set up separate service organizations.

If SMEs also lack the resources to invest in new equipment, their offering may be more labor-intensive or depend on another actor in the network with the right resources (Ulaga, Sharma, & Krishnan, 2002). Therefore, the success of SMEs with service infusion should be more dependent on other actors in their business network than is the case with large organizations. There is, however, a need to examine value creation in the broader network surrounding customer-supplier dyads (Matthyssens & Vandembemt, 2008; Ulaga & Eggert, 2006; Windahl & Lakemond, 2006).

2.2. Networks and value constellations

In business markets, suppliers and customers often establish and develop long-term business relationships (Ford & Redwood, 2005; Grönroos, 2006; Hallén, Johanson, & Seyed-Mohamed, 1991). Scholars in multiple research streams recognize the importance of emphasizing long-term business relationships, interactions, and networks through a focus on the firm's customers, suppliers, and other central actors in the network (Coviello, Brodie, Danaher, & Johnston, 2002; Ford, 2011; Gummesson, 2006; Håkansson & Snehota, 1995; Lindgreen & Wynstra, 2005; Lusch, Vargo, & Tanniru, 2010). Firms create networks in the context of interconnected business relationships (Gadde, Huemer, & Håkansson, 2003), which represent metaphorical and analytical tools to describe network nodes, or linkages between firms, located in time and space (Håkansson & Ford, 2002). Firms are held together by various competences, relationships, and information (Lusch et al., 2010), and each firm's competences include those it can exploit from other actors in its network (Araujo, Gadde, & Dubois, 2003). Håkansson and Snehota (2006) thus argue that a firm's most valuable resource is its relationships with other actors in the network.

Relationships in business networks with distinct structures reflect intentionally created constellations of actors. These actors pursue repeated, enduring exchange relations with one another and deliberately work together to mobilize value creation (Achrol, 1997; Dyer & Nobeoka, 2000; Lorenzoni & Lipparini, 1999; Podolny & Page, 1998). We conceptualize these structures as value constellations (Normann & Ramírez, 1993) and adopt an actor-defined perspective, such that a focal actor strives to configure adjacent business relationships through networking activities (Corsaro et al., 2012; Hinterhuber, 2002). In value constellations, value creation is an outcome of interactions among actors (Ramírez, 1999), and competitive advantage exists at a constellation, rather than firm level (Gomes-Casseres, 1994; Möller & Svahn, 2006; Normann & Ramírez, 1994). By conceiving value creation in the context of systemic business networks, firms can find opportunities to improve their effectiveness and adaptability (Lusch et al., 2010). Kindström (2010) argues that it is particularly crucial to cultivate relationships with other actors in the business network early in the process

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