

# Institutional and organizational transitions



TU-E2012 Service operations management

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# Learning objectives

After the session, you will be able to:

1. Describe the definition and main elements of **institutional theory** and understand why it is fundamental to understanding strategic and industrial **transitions** toward service strategies
2. Describe means for companies to advocate **institutional change** both within and beyond their boundaries



# Contents

- 1. Service strategies: An overview**
- 2. Institutional theory: Main ideas & concepts**
- 3. Institutional transformations in organizations and industries:  
Internal and external considerations**

# Part 1: Industrial service strategies: An overview

# Logic of service strategies

**“People do not want a quarter inch drill.  
They want a quarter inch hole.”**

Theodore Levitt, HBS

# Steps in service transition

## **1. Consolidating product-related services**

*Goal:* Control; improve efficiency, quality and delivery time

*Means:* Establishing a centralized service organization; increased control & monitoring of efficiency & effectiveness



## **2. Entering the installed base service market**

*Goal:* Tap new revenues with service provision

*Means:* Research the IB market; create organization for marketing and service delivery; establish support functions for service provision



## **3a. Expanding to relationship-based services**

*Goal:* Leverage service infrastructure for customer support

*Means:* Assume customers' operating risk; pricing based on availability; cost-advantage through scale, learning, networks

## **3b. Expanding to process-centric services**

*Goal:* Leverage product development capabilities for supporting the use of the product in customers' core business

*Means:* Develop consulting service; create new networks; expand to other manufacturers

Oliva & Kallenberg (2003)

Gebauer (2008)

# Case Rolls Royce: Power by the hour



A traditional engine manufacturer offering **“Total care” maintenance**

- Provides and sells **power-by-the-hour** to demanding customers such as FedEx



**Combines** reliable technology, world-wide maintenance network, sensor technology on engine condition to **minimize downtime**

Offers **predictability** for the customer

- Secured cost of operations
- Enhanced **service availability**

# Case Kone: People Flow Solutions



From elevator sales & maintenance **to influencing the design of buildings to facilitate user experience**

• From the entrance to office / apartment

**An integrative solution:**

- Elevator systems
- ICT (e.g., sensor data, digital platform, third-party interfaces)
- Design and consultation
- Preventive maintenance

→ **Kone's role as an integrator across system components!**



# Why turn to service strategies?

## ***Differentiate offering***

- Brand **distinctiveness**
- Higher **profit margins** from service provision

## ***Tap new demands***

- Support buyer's **specialization** into 'core' business
- Reduce buyer's **risk** by providing guaranteed availability

## ***Lock out competitors and lock in customers***

- **Specialized service competence** difficult to imitate
- Increase **customers' dependency** through tailored solutions

## ***Reinforce sustainability***

- Integrated solutions increase supplier's interest in **long product life cycle**

# Challenges of service strategies

1. Need for **new capabilities**
2. Exposure to **new risks**
3. Requires a shift in **managerial mindsets**
4. Surviving the **transitional period**

# Foregrounding the institutional challenge

*The business challenge:*

How to generate **growth** and boost **profitability** through service strategies?



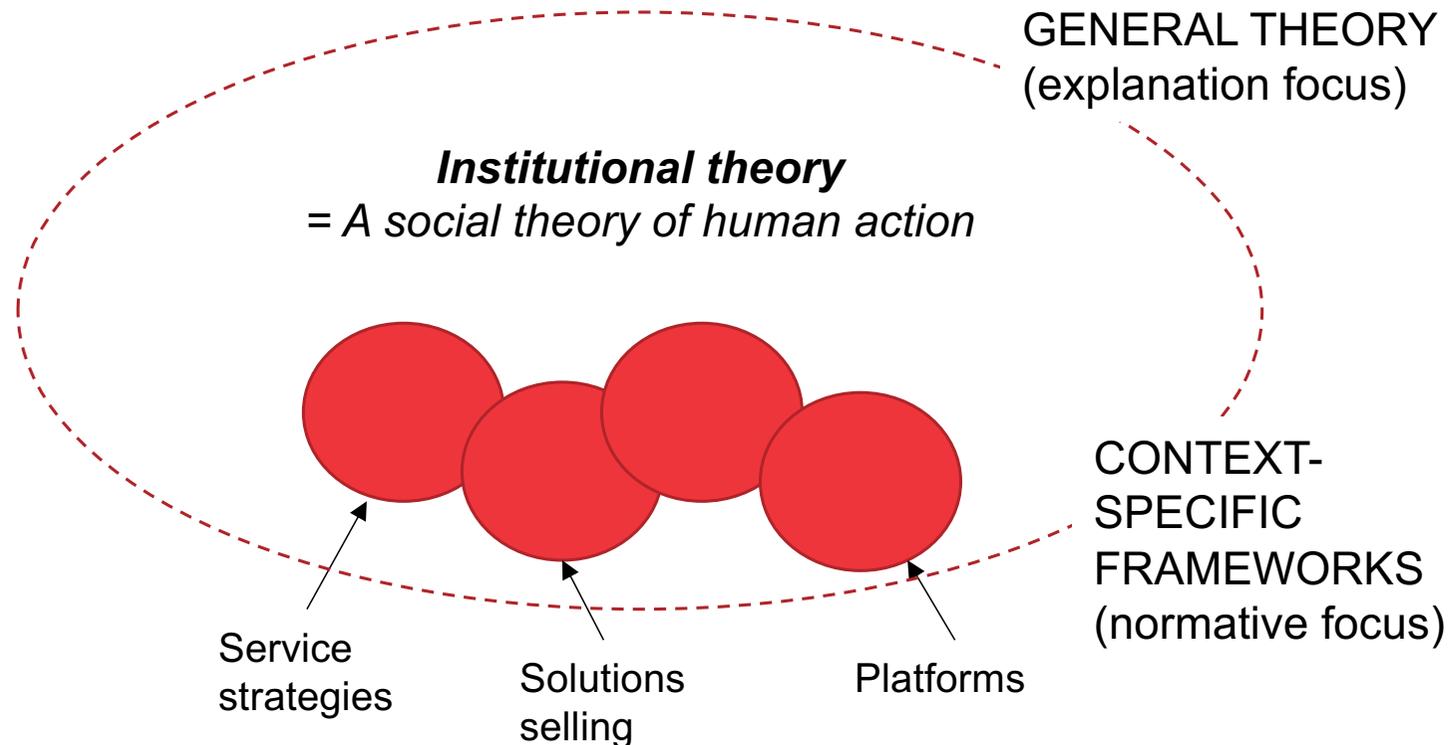
*The institutional challenge:*

How to **convince** organization members and external stakeholders of the feasibility of service strategies given the existing product-focused **routines**, shared **norms and roles**, as well as managerial **assumptions and mindsets**?

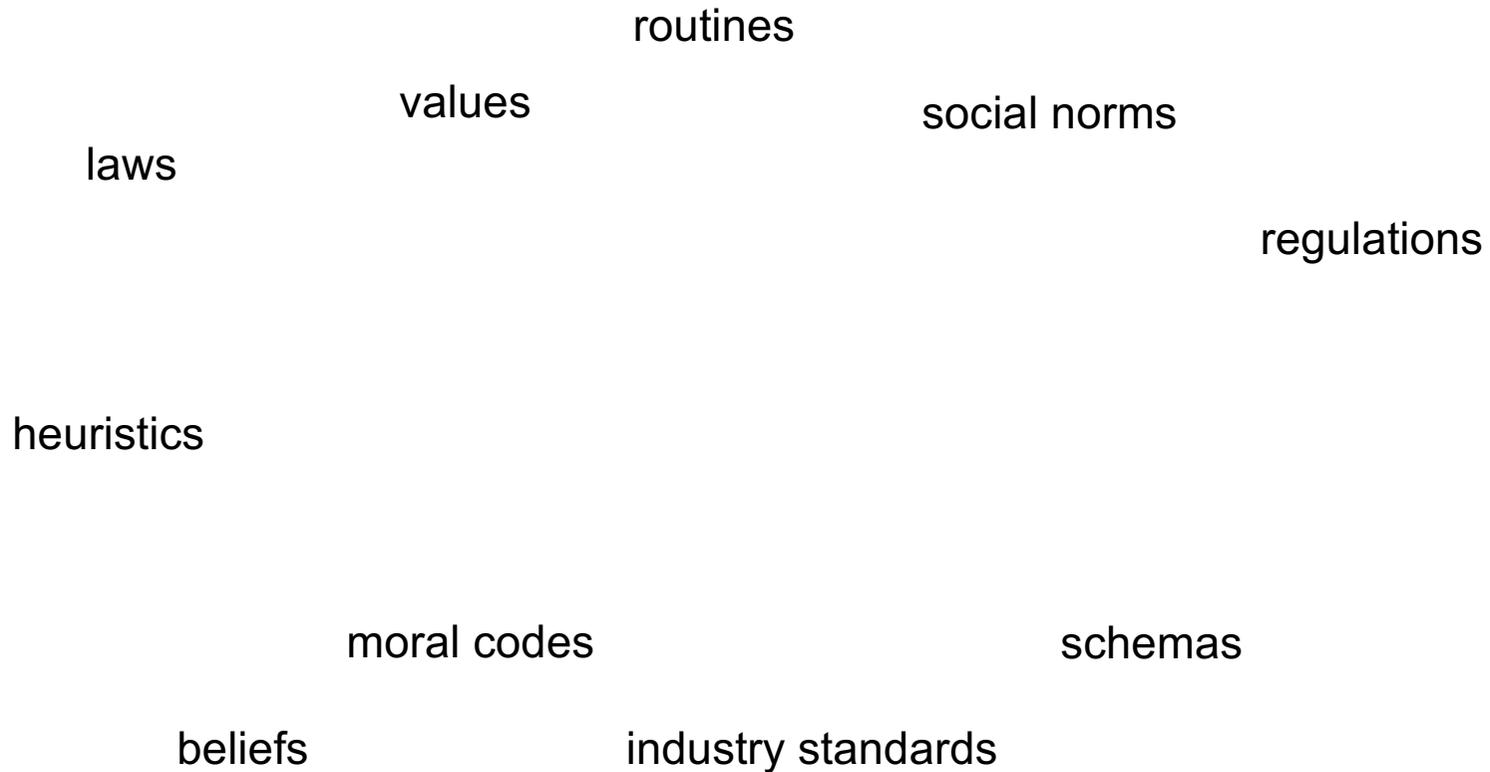


# Part 2: Introduction to institutional theory

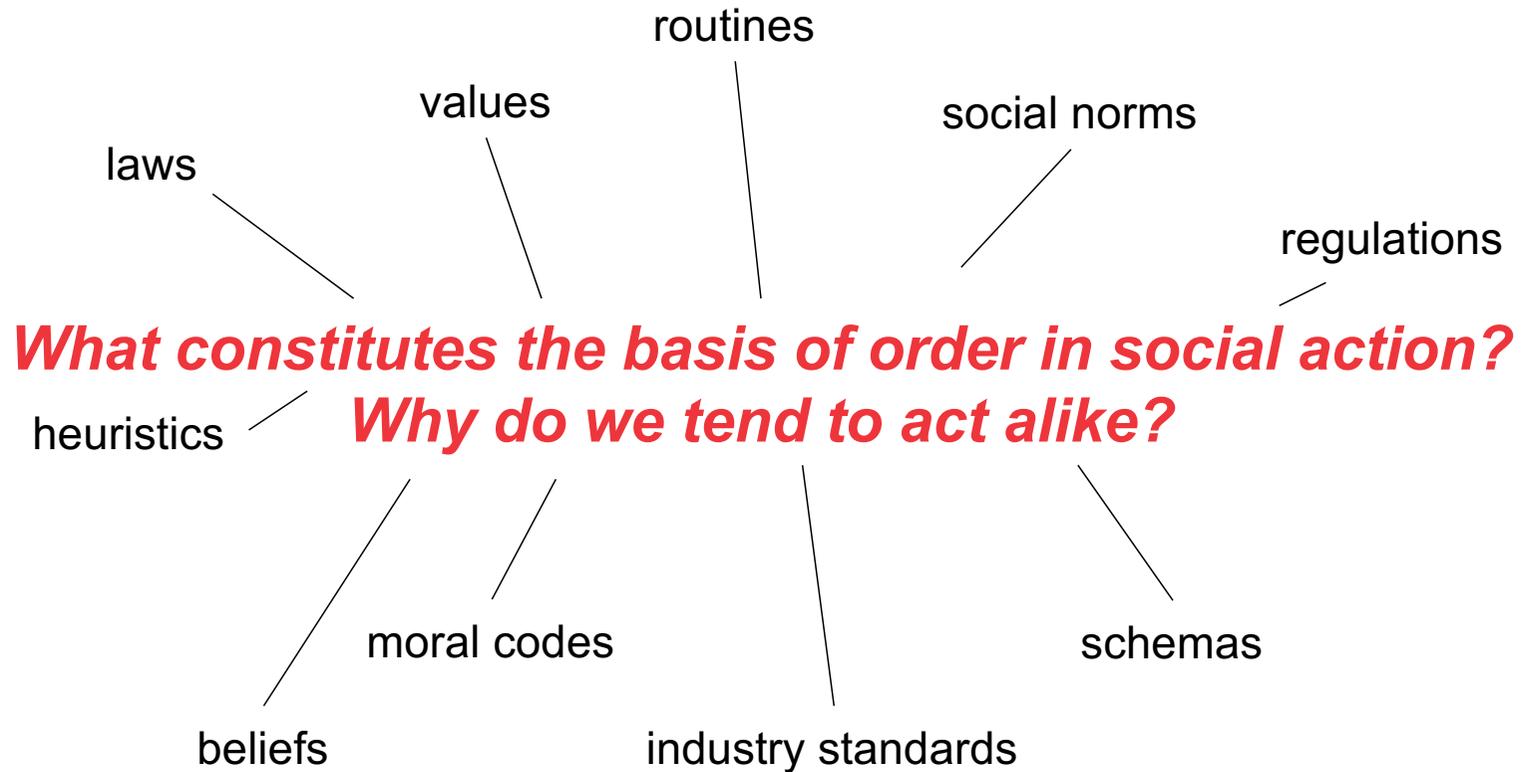
# Service management vs. institutional theory?



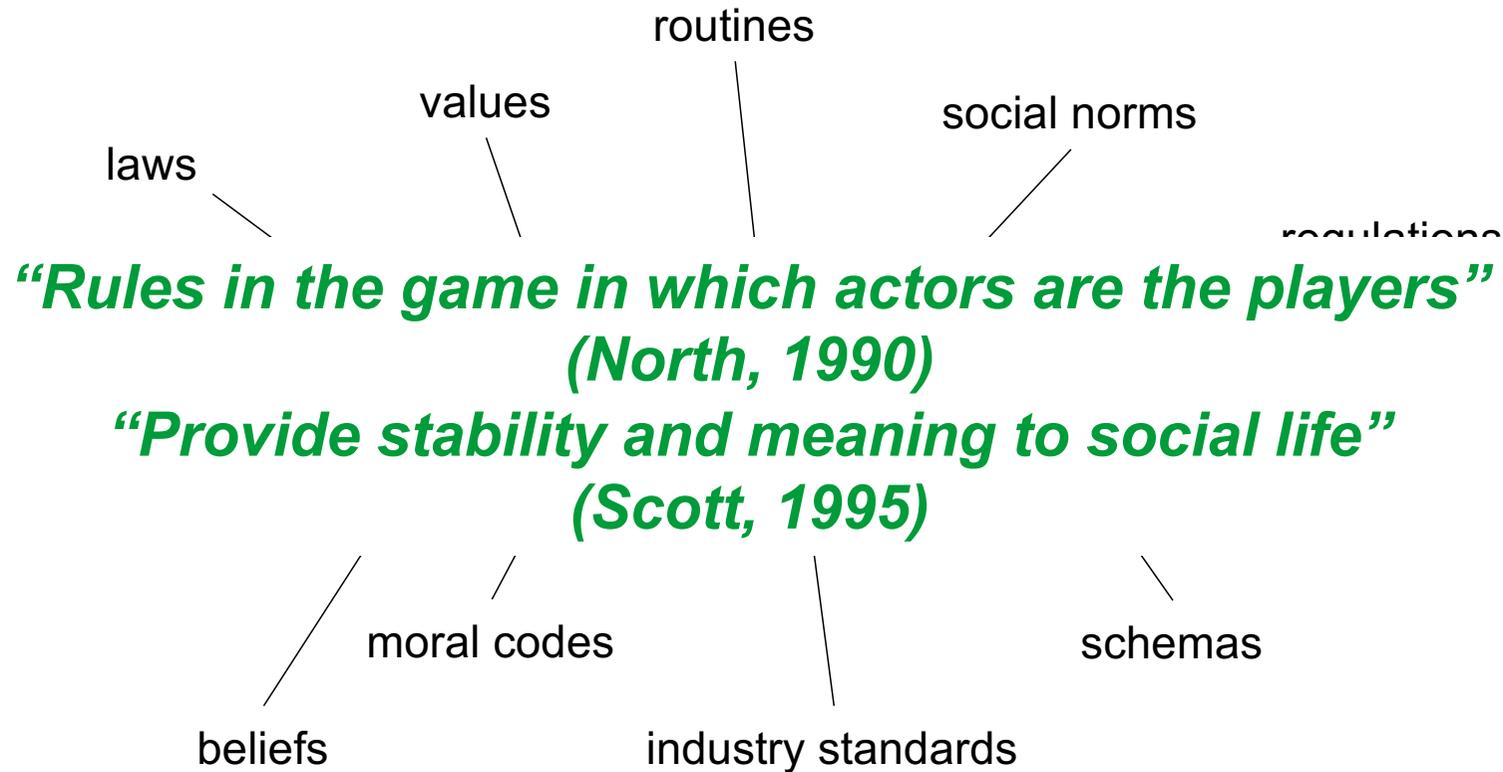
# What are institutions



# What are institutions



# What are institutions



# The routines and institutions of studying

Discuss in small groups:

- What kind of **routines** or other **recurring forms of activity** can you recognize in your day-to-day life within the university?
- What was the last time you encountered something completely **surprising**?



# The routines and institutions of studying

## “Informal”

- Guild get-togethers, student life practices
- Study routines in personal networks
- Personal daily routines on and around studies

## “Organizational”

- Study practices in degree programs (e.g., courses, exams)
- Student rights and responsibilities

## “Interactive”

- Lecturer-student roles, interaction routines (e.g., in the classroom)
- Routines and social “codes” for student group work

## “Societal”

- National legislation on universities
- University-level regulations, rules for degrees

# The routines and institutions of studying

## “Informal”

- Guild get-togethers, student life practices
- Study routines in personal networks
- Personal data and around

## “Organizational”

- Study practices in degree programs (e.g., courses, exams)

And then came COVID-19...

## “Interactive”

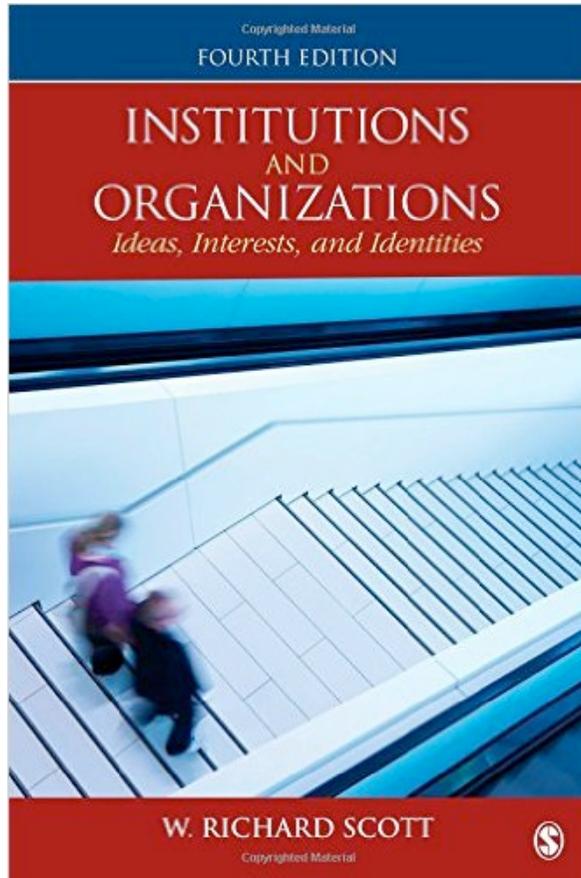
- Lecturer-student roles, interaction routines (e.g., in the classroom)
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## “Societal”

- National legislation on universities
- University-level regulations, rules for degrees



# Institutions: A formal definition



“Institutions comprise the **regulative, normative** and **cultural-cognitive** elements that, together with associated *activities* and *resources*, provide **stability** and **meaning** to social life”

# Institutional elements

## Regulative

- Laws
- Rules
- Regulations
- Governance systems

## Normative

- Values
- Expectations
- Roles
- Taboos
- Conventions
- Traditions
- Standards

## Cultural-cognitive

- Beliefs
- Mental models
- Schemas
- Frames
- Scripts
- Categories
- Identities

# Regulative institutions

Based on **expedience & compliance** with mandated specifications.

Social order deriving from **regulative rules** and (threat of **formal sanction**)

*Example from **Kone**:*

- Legislation influences the ways in which elevators can be used and maintained



# Normative institutions



Based on shared **values** and **conventions**, and **social obligation**

Social order deriving from the **binding expectations of others** (and threat of social exclusion)

**Example: The GSM standard**

- How the development of the GSM standard in Europe enabled Nokia & Ericsson get ahead of US-based companies

# Cultural-cognitive institutions

Based on “**taken-for-grantedness**” and **shared understanding** of social reality. Practices and artifacts possess **symbolic value** and **meaning**.

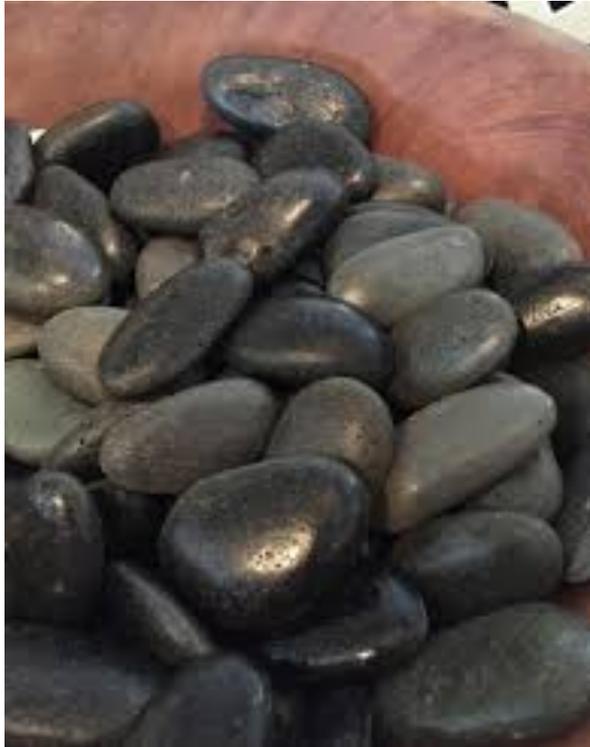
Social order deriving from **constitutive schema** – shared understandings about what we do, how, and why.

*Example from **Rocla**:*

- Attempt to create value through preventive maintenance inhibited by buyers’ collective understanding that inter-firm openness entails too great risks



# Example: Cultural-cognitive institutions and resources



Cultural background influences how humans **perceive, interpret and make use of** resources.

For example, flat stones:

- Finland = stone skipping at a lake
- Japan = garden decorations
- Hawaii = hula stones as musical instrument

Institutions imbue resources, artefacts, with **symbolic meaning**:

- A stone is not just a stone...

# ... and a hat is not just a hat



# Example: Institutional constraints on “People Flow Solutions”

## Regulative:

- Legal limitations on service provision (e.g., forced to service competitors’ elevators)
- Direct opposition by powerful supply chain actors (e.g., legal action)

## Cultural-cognitive:

- Lack of understanding about the value of service solutions
- Strategic evaluation and decision-making based on product-centric models and metrics

## Normative:

- Customers expect product sales
- The absence of industry-wide norms for information integration (e.g., building automation systems)
- Lack of shared contract forms for solutions (e.g., liability, customer protection)

# Part 3: Service transition as institutional change

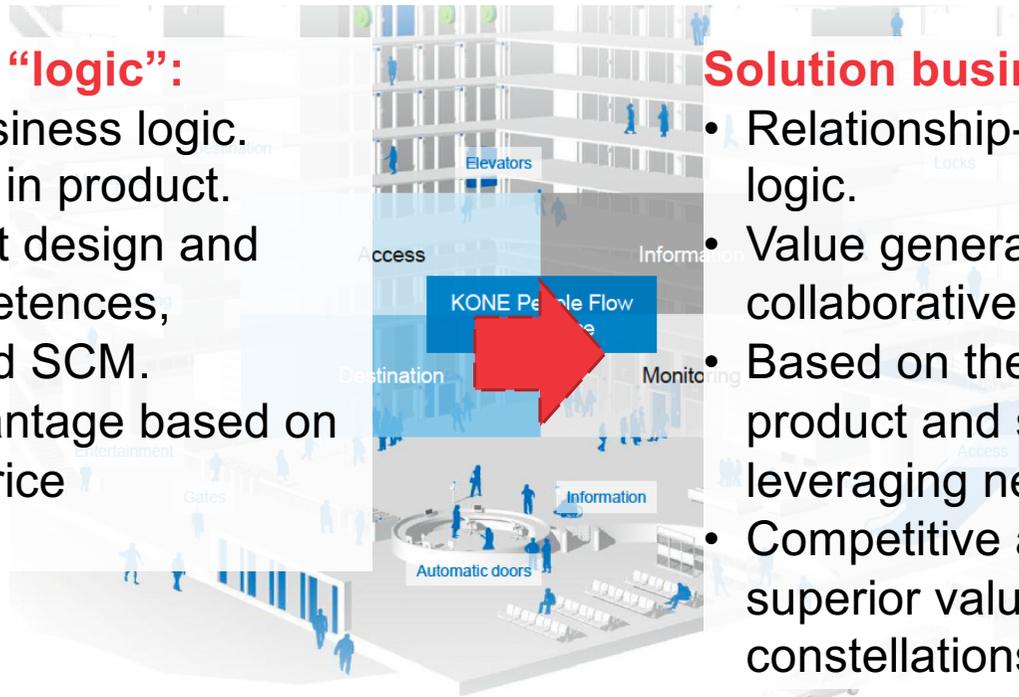
# Service strategies as institutional transition

## Product business “logic”:

- Transactional business logic.
- Value embedded in product.
- Based on product design and production competences, efficiency-focused SCM.
- Competitive advantage based on product quality-price differentiation.

## Solution business “logic”:

- Relationship-based business logic.
- Value generated through collaborative process.
- Based on the integration of product and service elements leveraging new competences.
- Competitive advantage based on superior value in new constellations.



# Creating internal institutional change

## In business logics

- Redefine the way in which service solutions are treated in decision-making, operations, innovation.
- E.g., Case Volvo and redefining the role of the customer based on their “use situation”

## In innovation activities

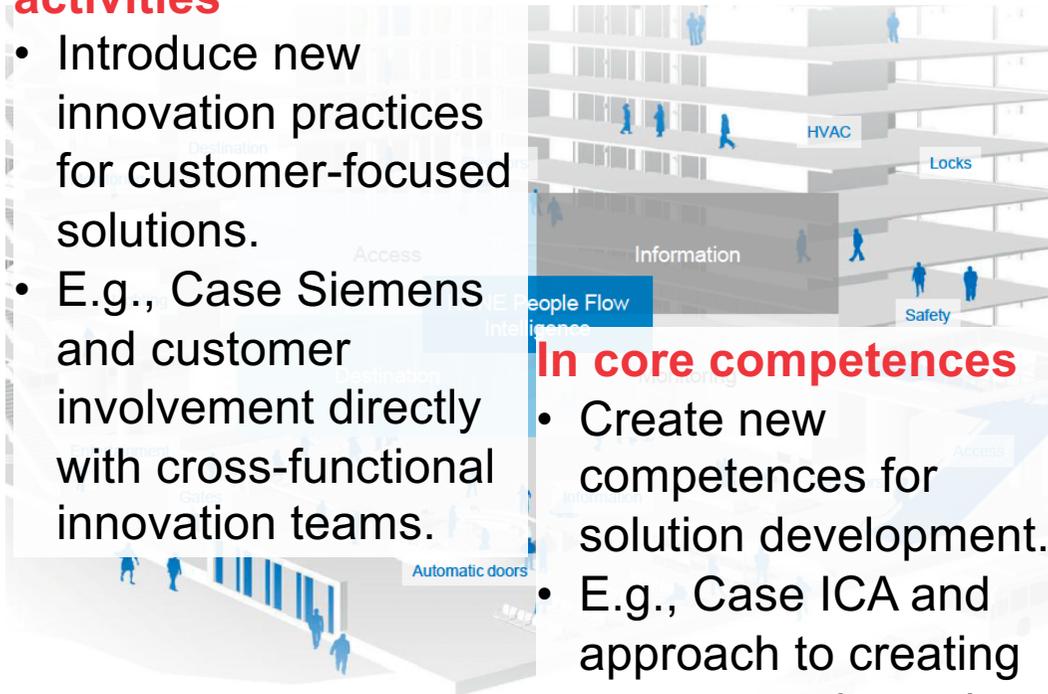
- Introduce new innovation practices for customer-focused solutions.
- E.g., Case Siemens and customer involvement directly with cross-functional innovation teams.

## In core competences

- Create new competences for solution development.
- E.g., Case ICA and approach to creating a cross-market value proposition

## In market structures

- Create new models for value creation within a market.
- E.g., Case Eataly and a new concept for healthy and sustainable food / eating.

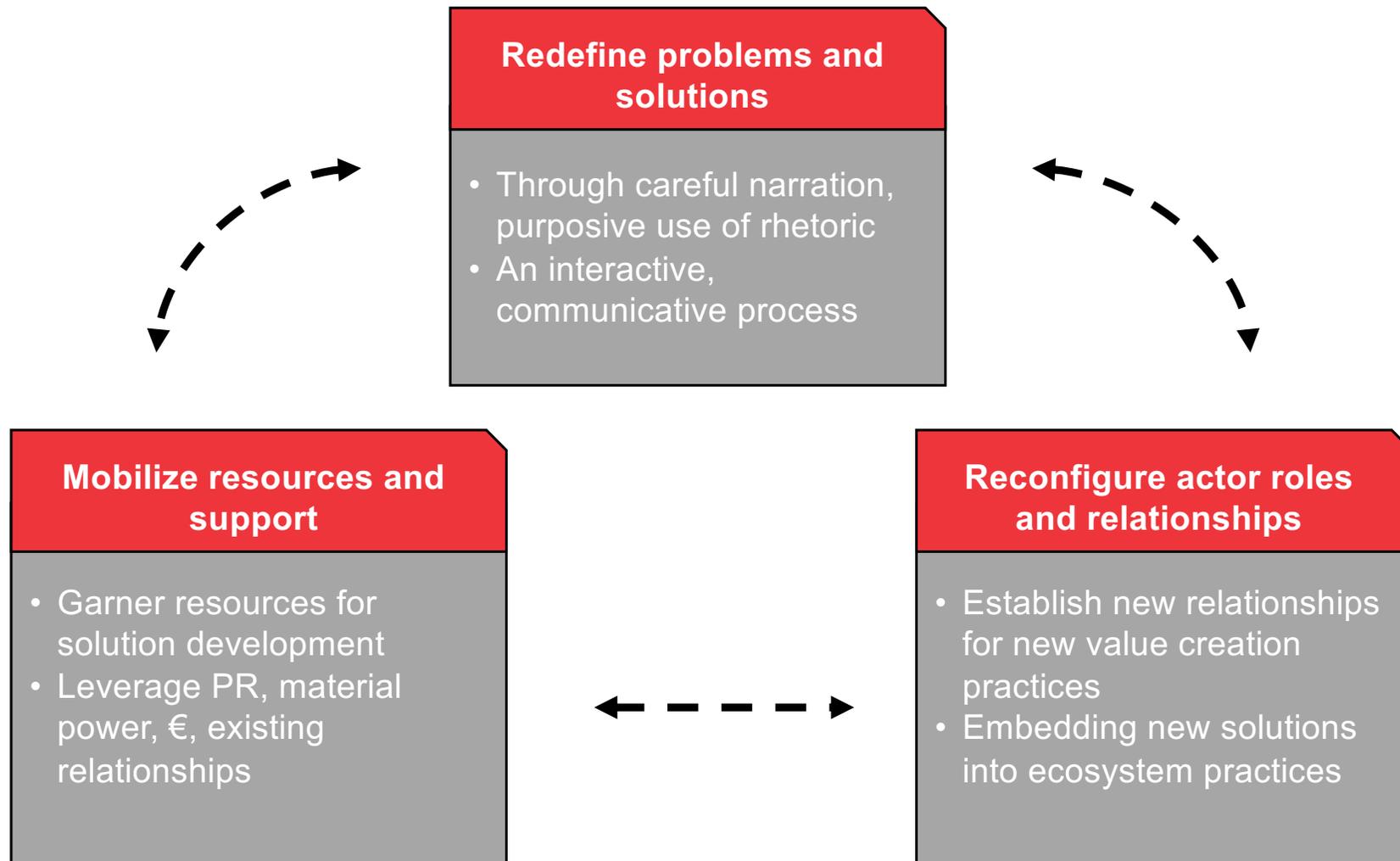


# Institutional change through “institutional work”

**Institutional work:** The purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions.

- 1. Maintenance:** Stabilize and emphasize the features of the current system that support the innovation
- 2. Disruption:** Undermine or ‘break’ the institutions that limit the novel solution
- 3. Change:** Create new and modify existing institutions in alignment with the novel solution

# Changing institutions



# Case Fira: Pursuing a service strategy in construction

## 2009: **Service construction as guiding strategic vision**

→ Bring the customer to the center of construction business

### 2010-

- Consultation service for project planning (with or without Fira being the main contractor)
- New collaborative practices in construction projects (e.g., big room design sessions, collaborative meeting routines at key junctures).

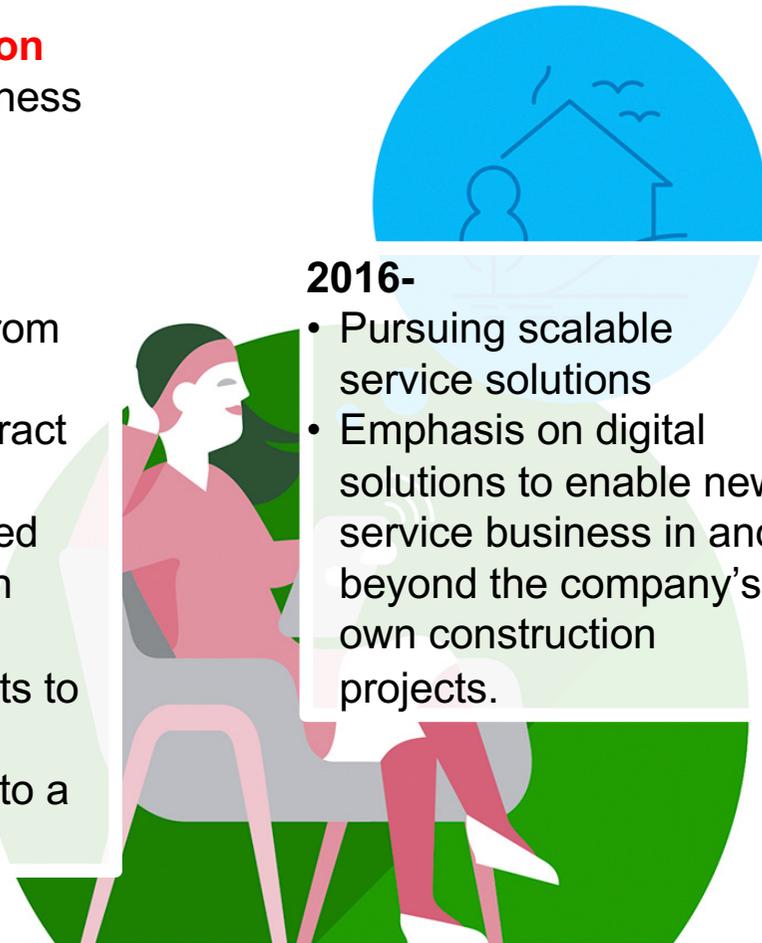


### 2012-

- Systematic shift from lump sum to collaborative contract types
- Performance-based revenue models in projects
- New business units to develop service solutions specific to a client segment.

### 2016-

- Pursuing scalable service solutions
- Emphasis on digital solutions to enable new service business in and beyond the company's own construction projects.



# Case Fira: Forms of internal institutional work

## Redefine problems and solutions:

- CEO-led definition and **communication** of a customer-centric vision
- Building **organizational identity** through values-based communication, unconventional approach to recruitment and training
- Garner and leverage **positive media attention** to reinforce commitment

## Mobilize resources and support:

- New **operative-level practices** and **reward models** to give shape to the service strategy
- Secure **commitments from important clients** to new contract models
- Recruit **individuals committed** to a customer-centric strategy

## Reconfigure actor roles:

- **New roles** for customer involvement in projects
- **New business units** to develop customer-centric solutions to specific client segments
- Pursuit of **digital solutions** to create 'prototypes' for scalable service solutions



# The external challenge of institutional change

**Legitimacy:** “A generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.” (Suchman, 1995)

→ Companies need to engage in **institutional work** to **build legitimacy for their service solution** in the eyes of their clients and other key stakeholders

# Forms of legitimacy

## Pragmatic

- Action or entity valuable to others
- In direct exchange or through indirect influence

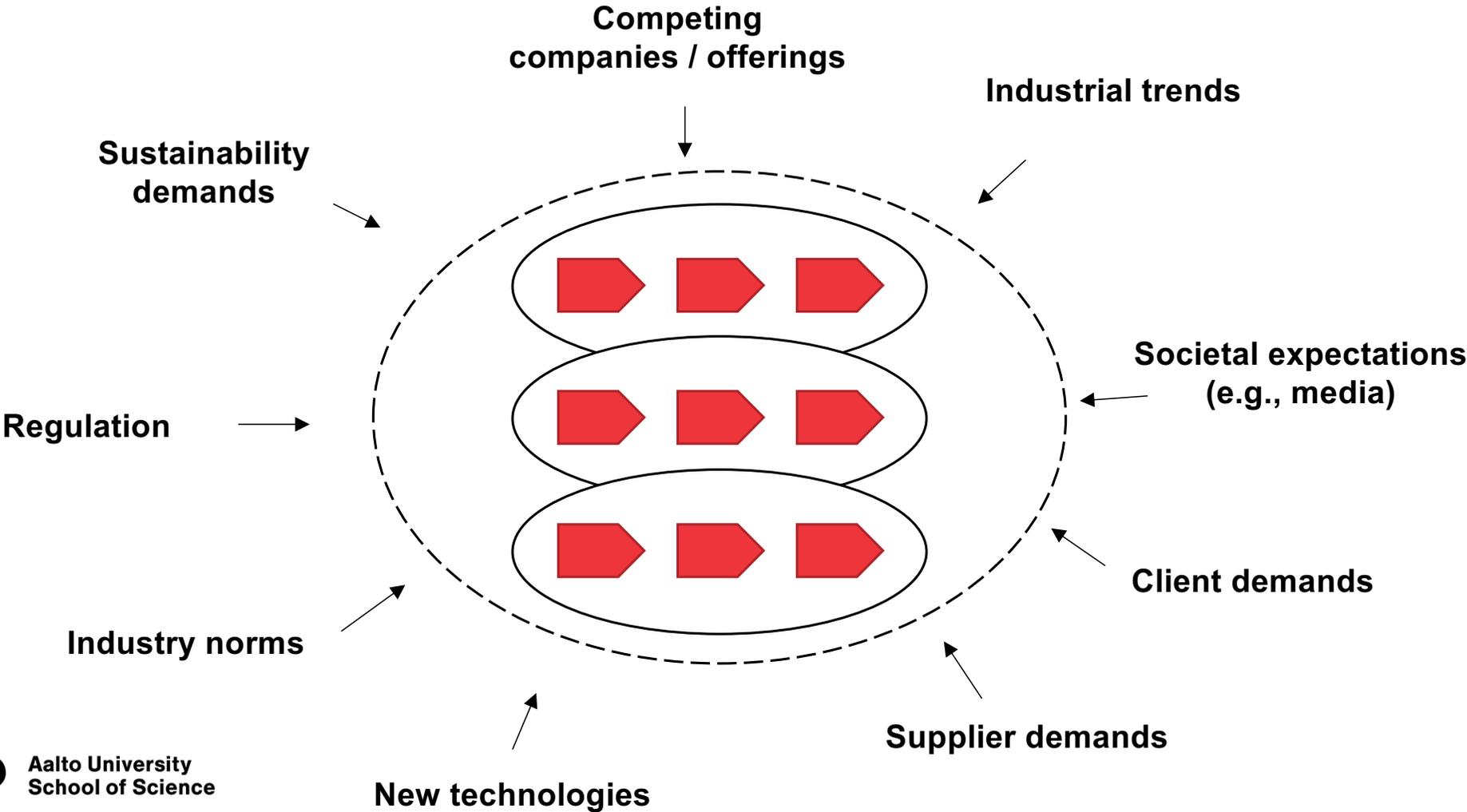
## Moral

- Action judged as the right thing to do
- Based on outcomes, procedures, or persons

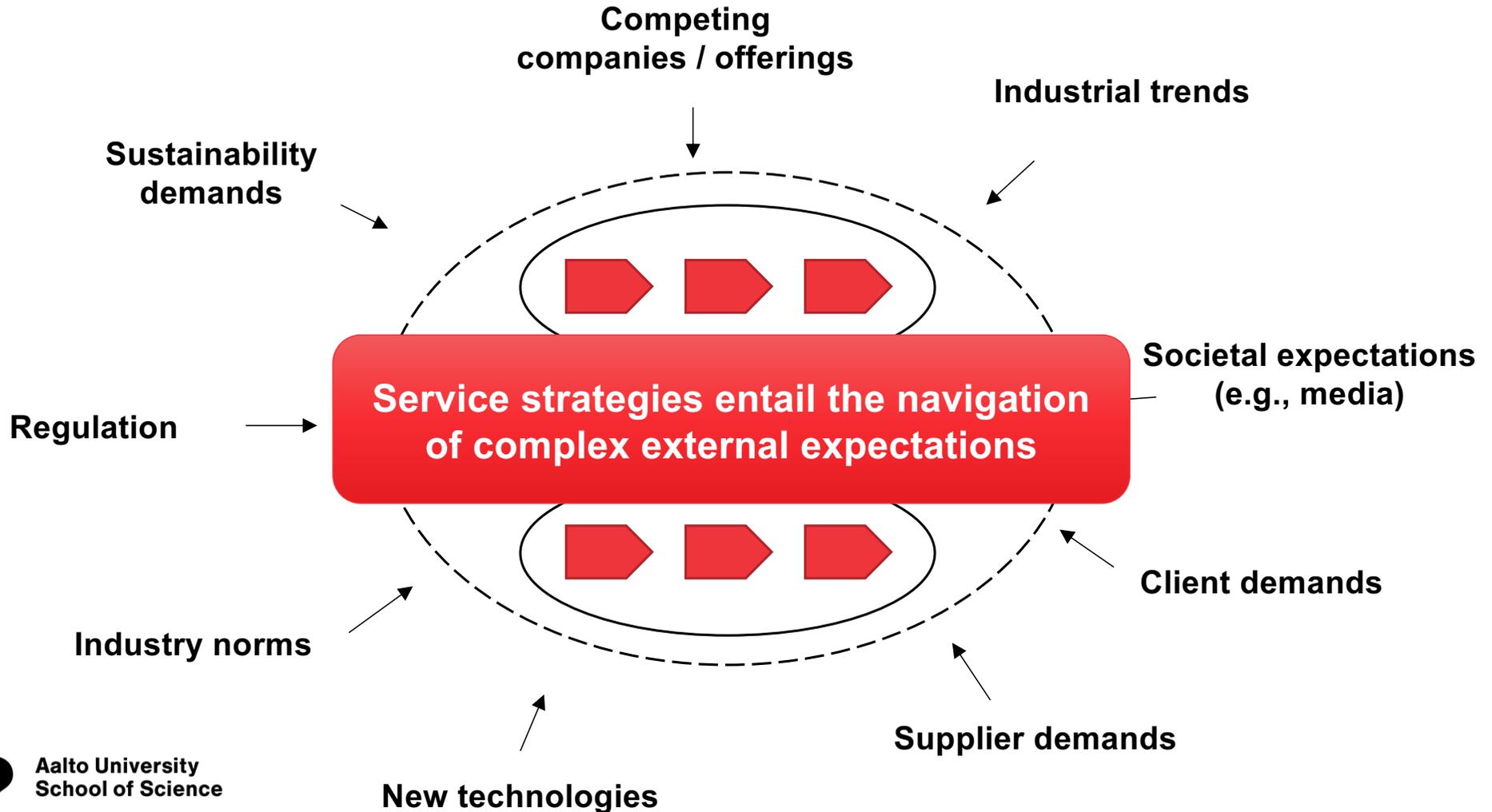
## Cognitive

- Action is comprehensible to others
- Action is a taken-for-granted part of social reality

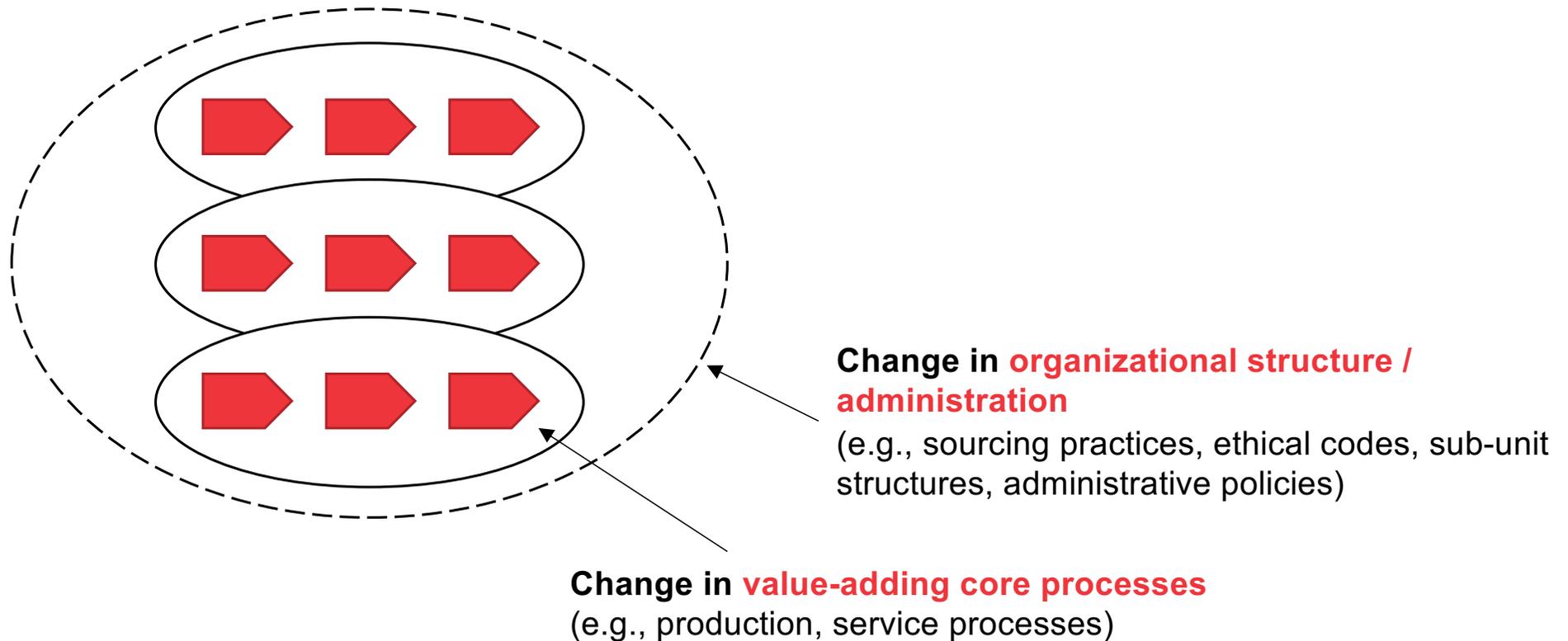
# External pressures and change



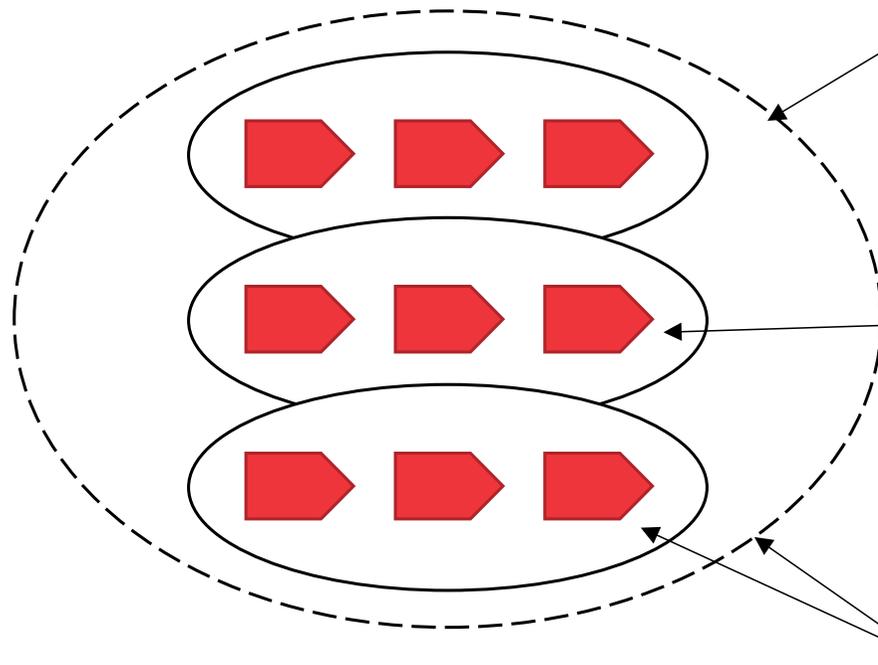
# External pressures and change



# External pressures and change



# Case: Implementing IOS in hospitals



1] **Institutional pressures** (especially regulatory & normative) met by changes at the **administrative layer** without a substantial change in core activities

2] **Efficiency-driven** (competitive) pressures met by changes in **core activities**

3] Strong **normative** and **cultural-cognitive pressures** met with changes in both **administrative structures** and **core activities**

# Responding to external demands

## Conform:

- Adapting the service solution to meet external demands (even when diluting its efficacy).

## Manipulate:

- Co-opting powerful clients or suppliers for support, redefining industry problems and solutions, using resources to shut down opposition.

## Compromise:

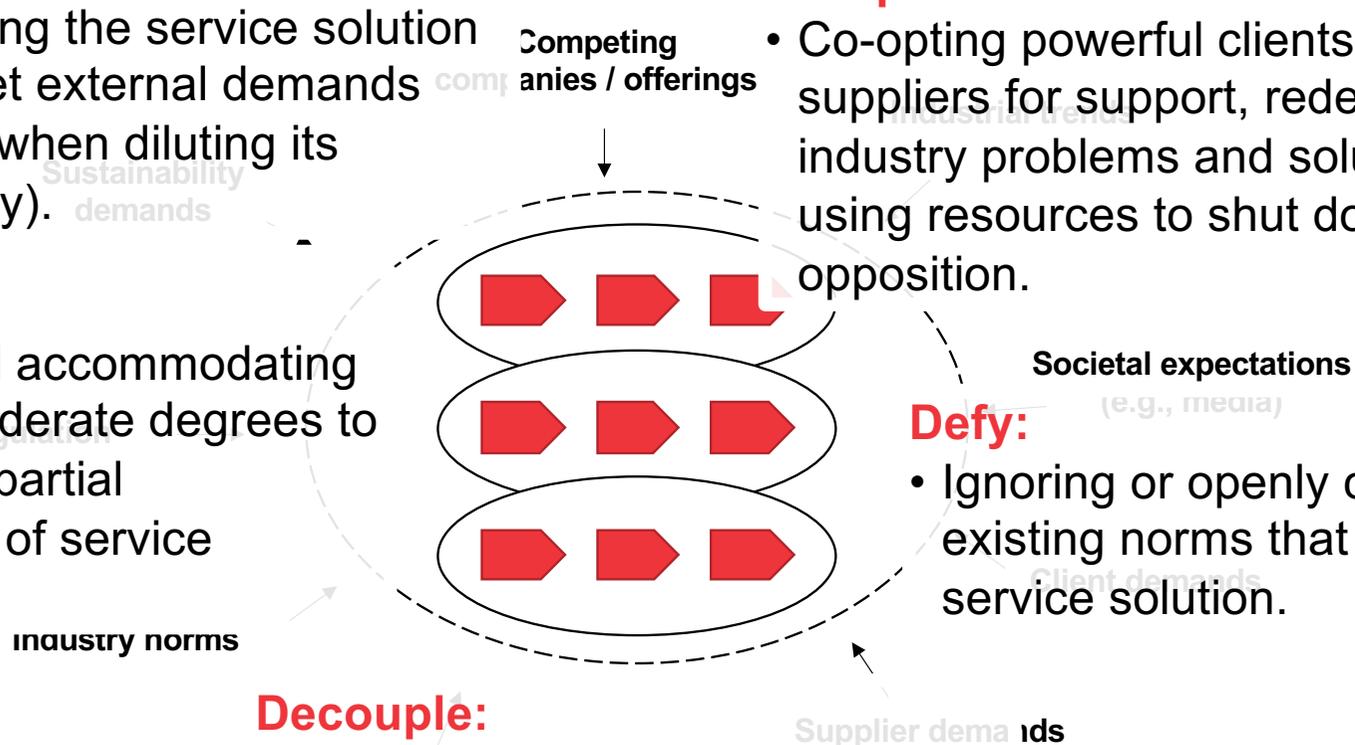
- Negotiating and accommodating demands to moderate degrees to enable at least partial implementation of service solutions.

## Defy:

- Ignoring or openly contesting existing norms that oppose the service solution.

## Decouple:

- Making administrative changes to appease stakeholders while continuing with service strategy in core business activities

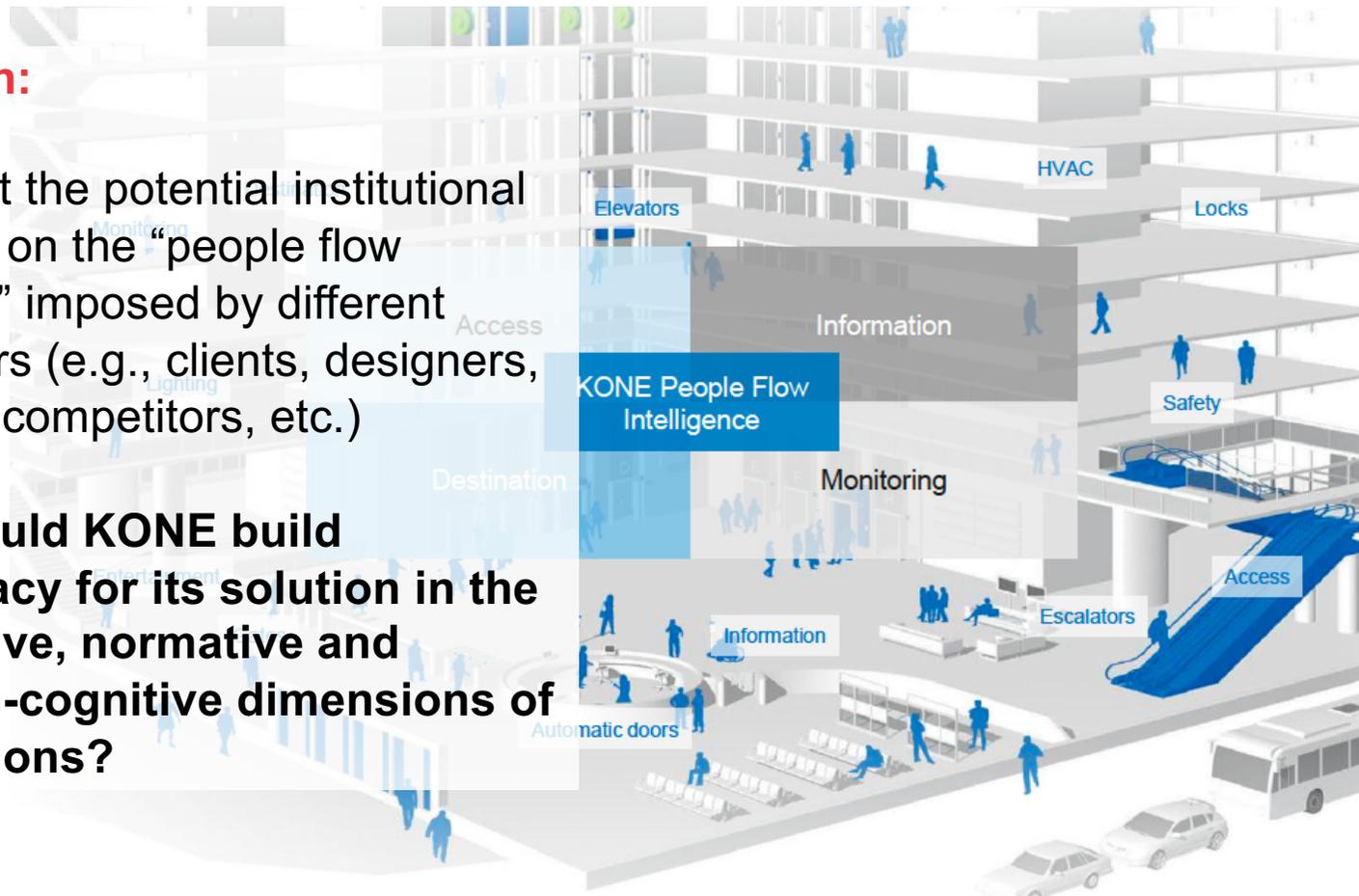


# Promoting institutional change: Case Kone

## Discussion:

Think about the potential institutional constraints on the “people flow experience” imposed by different stakeholders (e.g., clients, designers, regulators, competitors, etc.)

→ How could KONE build legitimacy for its solution in the regulative, normative and cultural-cognitive dimensions of institutions?



# Promoting institutional change: Case Kone

## Regulative:

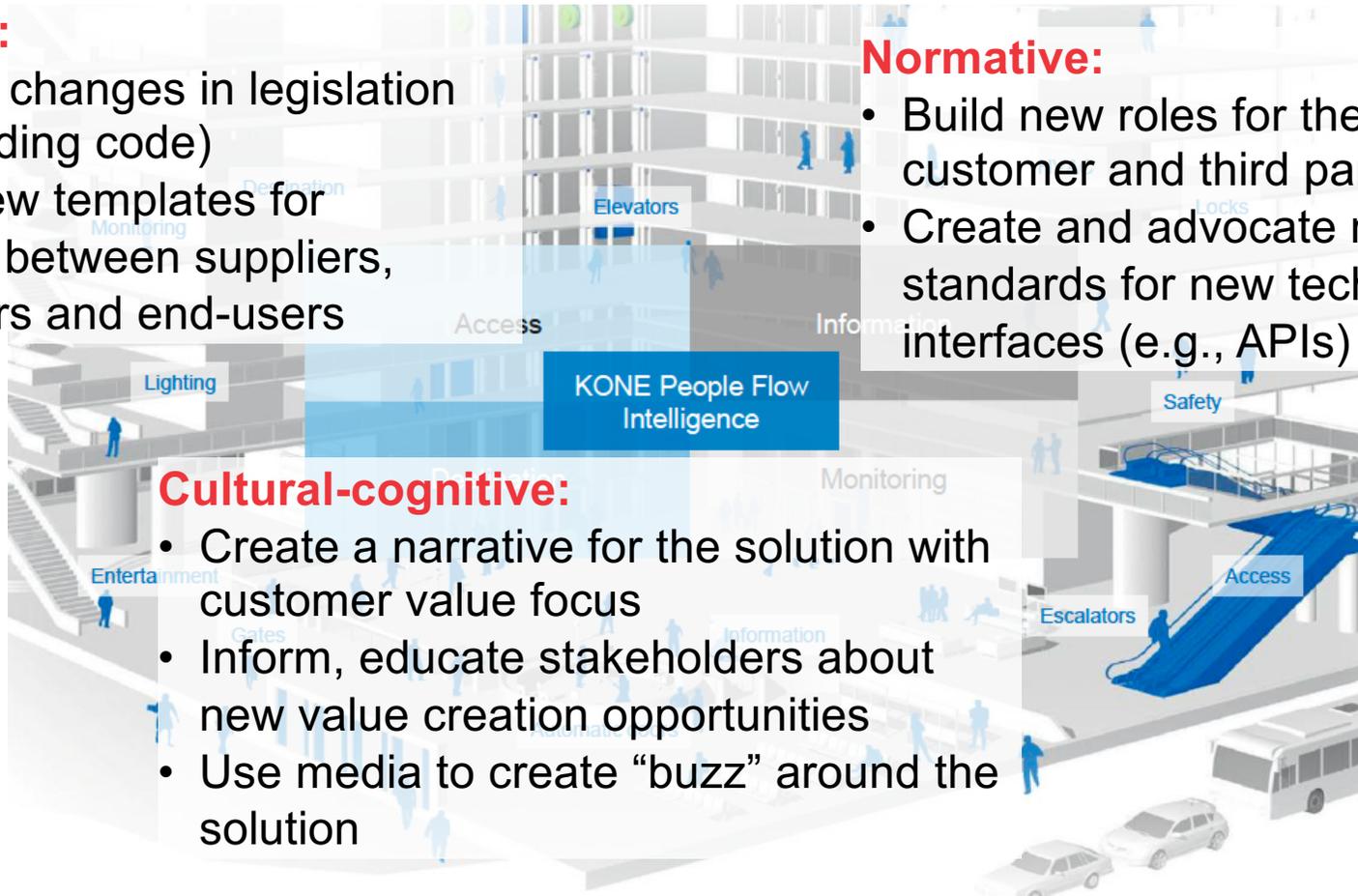
- Lobby for changes in legislation (e.g., building code)
- Create new templates for contracts between suppliers, contractors and end-users

## Normative:

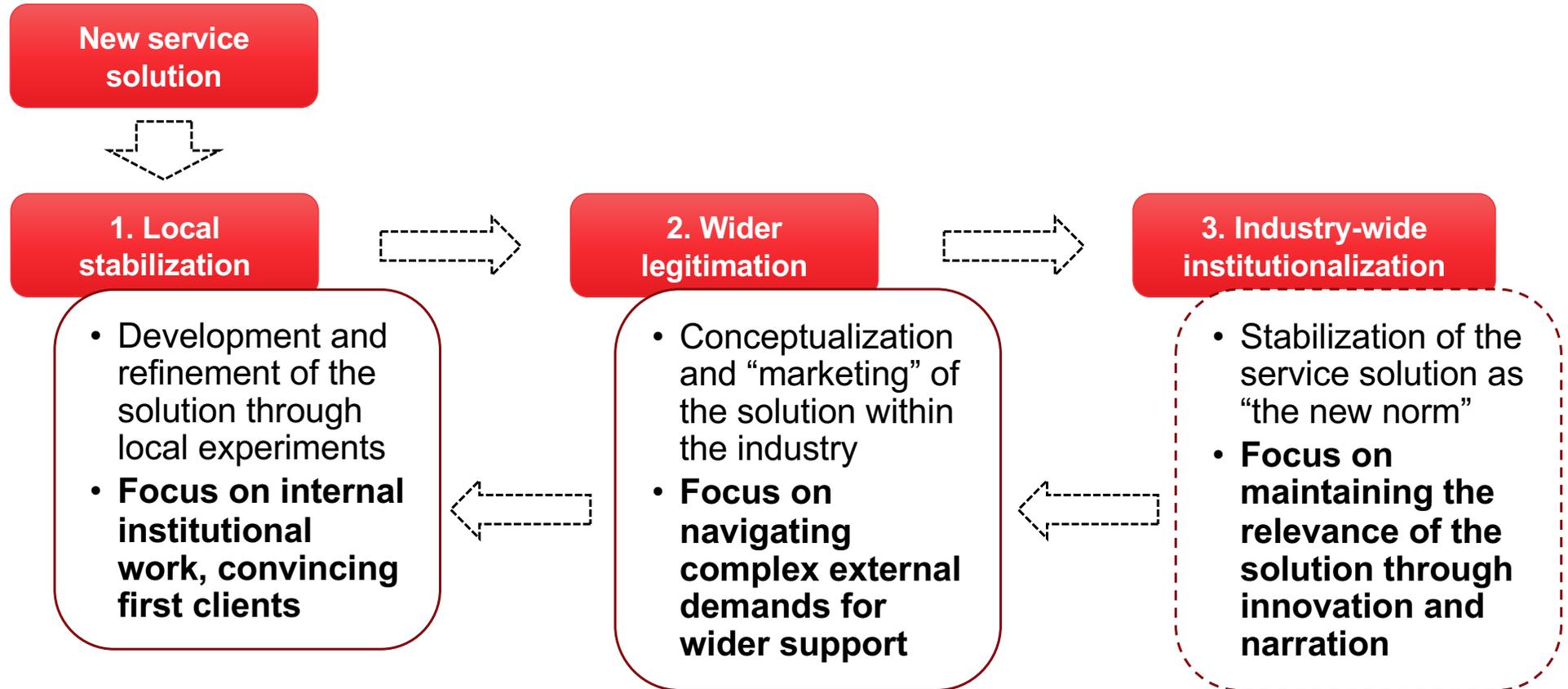
- Build new roles for the provider, customer and third parties
- Create and advocate new standards for new technological interfaces (e.g., APIs)

## Cultural-cognitive:

- Create a narrative for the solution with customer value focus
- Inform, educate stakeholders about new value creation opportunities
- Use media to create “buzz” around the solution



# Synthesis: Institutionalizing service solutions



# Summary

## 1. Industrial service strategies

- Combine products and services into customer-benefitting solutions
- Entails an organization-wide transitional process with various strategy options

## 2. Institutions

- Regulative, normative & cultural-cognitive elements that constitute the “rules of the game” for human action
- Enable efficient and effective social action yet constrain innovations

## 3. Service strategies as institutional change

- Internal institutional work to create new competences, value creation practices and guiding “logics” or mindsets for industrial operations
- External institutional work to build legitimacy for new service solutions confronted by complex external demands

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