Resource Orchestration in Digital Servitisation: A Case Study of Integrated Energy Service

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INTRODUCTION

Manufacturers are continuously going downstream by adding services to products to improve sustainability. This process is referred to in the literature as servitization (Vandermerwe & Rada, 1988). Servitization strategy that is properly implemented can improve sustainable performance, and significantly enhance sustainable performance (Hao, Liu, & Goh, 2021). The emerging Industry 4.0 technologies (also known as Technologies 4.0) greatly facilitates the integration of products and services (Zambetti, Pinto, & Pezzotta, 2019). Technologies, such as the Internet of Things (IoT), Cloud computing or Big data and analytics, are supporting companies to enhance their product-service offering, both providing advanced infrastructure to deliver services and creating the potentiality to extend the service offering (Opresnik & Taisch, 2015). However, software was underemphasized in the early servitization research, it is now time to shed light on the role of digitalization in servitization and let digitalization rewrite the servitization narrative—digital servitization, which diverge from the original servitization story (Luoto, Brax, & Kohtamäki, 2017).

Digital servitization is the most definitive trend (T. Baines et al., 2017). Manufactures are moving from remote monitoring to optimization, control, and, ultimately, autonomous systems with advanced functionalities based on Artificial Intelligence. While some manufactures are still overcoming the challenges of data collection, warehousing, analytics, and prediction, leading companies such as ABB, Volvo, and Wärtsilä are rapidly moving toward more autonomous solutions (Parida, Sjödin, & Reim, 2019; Porter & Heppelmann, 2015). Studies have started documenting multiple industrial cases of the transition toward digital servitization (Cenamor, Rönnberg Sjödin, & Parida, 2017). Digitalization is increasingly viewed as an enabler and driver of the business model, value creation, and value capture in servitization (Parida et al., 2019; Porter & Heppelmann, 2015). Firstly, Digital technology is embedded in product service system, changing the service offering (Lerch & Gotsch, 2015). Manufactures come to digital product-service system supplier (Pagoropoulos, Maier, & McAloone, 2017). Large and complex equipment such as jet engines generate huge amounts of data during
operation, which can be used to generate predictive maintenance services (Luz Martin-Pena, Diaz-Garrido, & Maria Sanchez-Lopez, 2018). Videos and images collected by video surveillance equipment can support manufactures offering automated security services (Boucher Ferguson, 2013). The behavioral data collected by wearable devices can support offering health services. Beyond that, some manufactures even more proactively engage with customers by implementing so called customer success management systems (Hochstein, Rangarajan, Mehta, & Kocher, 2020). The data itself has become a sellable product (H. Zhu & Madnick, 2009). Data analytics and data sales that generate new value are collectively known as "data reuse," and this has become the biggest opportunity for servitization (Opresnik & Taisch, 2015). Secondly, the success of servitization always requires digital facilities and process support (Gobble, 2018). Digitization extends the service network (Pohllmann & Kaartemo, 2017), increasing heterogeneous resources (Lyytinen, Yoo, & Jr, 2016) and resource mobility (Goduscheit & Faullant, 2018), which may fundamentally improve the innovation ability of the service and business model (Herterich, 2017), and solve “servitization dilemma” (Visnjic Kastalli & Van Looy, 2013).

Although, significant contributions have been made to the digital servitization literature, mostly, these research float on the level of phenomenon description and hold a static perspective. There is a lack of knowledge of the microfoundation focus on how to orchestrate organizational resources and capabilities. Furthermore, digital servitization research focus too much on technology application and pays insufficient attention on organizational change (Tronvoll, Sklyar, Sörhammar, & Kowalkowski, 2020). In fact, digital servitization relates to the overall transition of organization resource and structure, as well as the interaction with users and business ecosystem participants. The ‘techie led’ digital transformations often fail (Westerman, 2016). It needs a “technical-organizational” combined perspective.

This paper addresses this digital servitization phenomenon and aims to fill the gap in the existing literature on the internal transformation mechanism. We conducted a case analysis on one integrated energy service supplier. Based on a “technical-organizational” combined perspective, this paper aims to explore the configurations of resources and capabilities digital servitization strategy required. Therefore, the following research questions are addressed in the paper:

RQ1. What are the fundamental tactics of digital servitization strategy?

RQ2. What are the types of competitive strategies for digital servitization?

LITERATURE REVIEW

Servitization
Research on servitization originated in 1960s (Greenfield, 1966). The concept of "servitization" was first proposed by Vandermerwe and Rada (1988). After that, many scholars contribute to the concept development, such as White (1999), Reiskin (1999). Other scholars have proposed similar concepts, like service-embedded manufacturing (Sun linyan, Li Gang, Jiang Zhibin, Zheng Li, & He Zhe, 2007), product-service System (PSS) (T. S. Baines et al., 2007), integrated solution (Miles, Andersen, Boden, & Howells, 2003). Although the perspectives vary, they all emphasize the shift of manufacturing enterprises to selling product-service combined offerings (Tukker, 2004). The existing servitization research including: 1) Mode: For example, according to the degree of servitization, it is divided into three types, product extensional servitization, functional servitization and integrated solution (Davies, 2004). According to the way of offering services, it is divided into two types, supporting service and customer self-service (Kowalkowski, Kindström, & Gebauer, 2013). According to the competitive strategy, it is divided into outsourcing mode, integration mode, cooperation mode and service provider mode (LIU Jian-guo, 2012). 2) Drivers: There are internal and external drivers. Internal drivers including Human Resources (Santamaría, Jesús Nieto, & Miles, 2012), corporate culture, organizational structure (Gebauer, Edvardsson, Gustafsson, & Witell, 2010), service innovation strategy (Ettlie & Rosenthal, 2012), organizational capabilities (Mennens, Van Gils, Odekerken-Schröder, & Letterie, 2018; Parida, Sjödin, Lenka, & Wincent, 2015) and so on. External drivers including network relationship (Feng & Sivakumar, 2016; Korhonen & Kaarela, 2011), industrial technology disturbance (Santamaría et al., 2012), social and economic environmental factors (Wan, Rongping, & Minglu, 2012) and so on. 3) Strategy pathway: Including organizational structure installation (Gebauer et al., 2010), resource optimization and capacity construction (Daniel Kindström, Kindström, & Kowalkowski, 2014), establishing service ecology with platform thinking (Cenamor et al., 2017). 4) Performance: Although manufactures may encounter "servitization dilemma" (Brax, 2005), in general, it can promote the continuous growth of manufacturing enterprises and improve customer asset management (Tim Baines, 2015). Table 1 provides a brief summary of the research themes and corresponding representative literature.

Table 1: Research themes and representative literature

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<th>Theme</th>
<th>Topics</th>
<th>Representative literatures</th>
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Driver internal and external factors (Gebauer et al., 2010), (Lin & Lin, 2012), (Santamaría et al., 2012), (Bastl, Johnson, Lightfoot, & Evans, 2012), (Laine, Paranko, & Suomala, 2012), (Demeter Krisztina & Levente, 2013), (Saccani, Visintin, & Rapaccini, 2014), (Alvarez, Martins, & Silva, 2015), (Li, Zhu, Lin, Ma, & Huang, 2015), (Tim Baines & Shi, 2015), (Benedettini, Neely, & Swink, 2015), (Feng & Sivakumar, 2016), (Ayala, Paslauski, Ghezzi, & Frank, 2017), (Lilong, Jiang, & Xiaoyong, 2012), (Mennens et al., 2018), (Lenka, Parida, & Wincent, 2017), (Valtakoski, 2017), (Chaping, Tao, & Qinfang, 2019), (Shah, Jajia, Chatha, & Farooq, 2020).


performance Operation and innovation (Zhou, Yan, Zhao, & Guo, 2020), (Sjödin, Parida, & Kohtamäki, 2019), (Visnjic Kastali & Van Looy, 2013), (Li, Lin, Chen, & Ma, 2015), (Bustinza, Bigdeli, Baines, & Elliot, 2015), (Ting, Hua, & Peng, 2014), (Jie-xiong, 2010), (Neely, 2008).

**Digital Servitization**

The majority of the literatures related to digital servitization holds a in a broader sense. Some studies focusing on the application of different digital technologies in servitization, such as the IoT (Zancul Eduardo de et al., 2016), big data analytics (Ardolino et al., 2018), and cloud computing (Wen & Zhou, 2016). Other studies focus on the business process perspective digital transformation in servitization as production (Coreynen, Matthyssens, & Van Bockhaven, 2017), and supply chain
management (Vendrell-Herrero, Bustinza, Parry, & Georgantzis, 2017), after-sales (Belvedere & Grando, 2017). However, digital servitization is a combination of digitalization and servitization. It is associated with: 1) the nature change that manufactures’ service offerings become more digital and ‘smart’; 2) shift in the organization's business models; 3) the deploy of new strategic assets and the generation of competitive advantages, mostly due to the exploitation of data and information; and 4) the launch, monitoring, and control of initiatives aimed at achieving a more sustainable business (Paschou, Rapaccini, Adrodegari, & Saccani, 2020). Thus, digital servitization can be conceptualized as the business model that manufactures offering digital technology supported combination of services and products, which aims shaping more sustainable competitive advantage.

Digital servitization commonly involves complex of organizational change. For outside, digital servitization facilitates new types of customer interaction and closer integration. The integration of digital technologies offers opportunities for developing customized value propositions based on higher-quality services and relationships (Kamalaldin, Linde, Sjödin, & Parida, 2020; Paiola, Schiavone, Grandinetti, & Chen, 2021; Rust & Huang, 2014). For inside, the application of new technologies enhances operational efficiency, new capabilities, and transparency in support of better decision making (Cimini, Adrodegari, Paschou, Rondini, & Pezzotta, 2021). However, no matter outside or inside, all the changes characterized by depending on the continuous acquisition, warehousing, analytics, and implementation of machine and fleet-level data. Thus, digital capability and resource about service-related data processing and interpretation is critical (Tian, Coreynen, MatthysSENS, & Shen, 2021). Hasselblatt (2018) studied manufacturers’ capabilities in the IoT and found five bundles of strategic IoT capabilities: 1) digital business model development, 2) scalable solution platform building, 3) value selling, 4) value delivery, and 5) business intelligence and measurement. IoT transformed the capability requirements of manufacturers significantly, and further research is needed to define manufacturers’ benefits of digital servitization. Companies need software capabilities while their business dependent more on the continuous acquisition, warehousing, analytics, and implementation of machine and fleet-level data. Coreynen (2017; 2020) indicated that manufacturers should balance two dynamic capabilities (exploratory and exploitative) and reset resources configurations.

Resource Orchestration Theory

Resource orchestration theory is a strategic management theory about how an organization can update its resource configurations to establish competitive advantage. It is a theory between resource-based view (RBV) and organizational capability theory. RBV affirms the role of resources in organization competitive advantage. Assembling and deploying specific resources is the microfoundation of generating organizational capabilities (J. Barney, 1991; J. B. Barney, Ketchen, & Wright, 2011). However, having resources does not necessarily lead to a competitive advantage (Baert, Meuleman,
Debruyne, & Wright, 2016; J. B. Barney, 2001; Helfat & Peteraf, 2003). The organization should organize its resources effectively to form the specific capabilities to create a competitive advantage. The theory of organizational capacity jumps over the action mechanism of basic resources, directly discusses how an organization's ability affects its competitive advantage and performance. Resource orchestration theory answers the question of how enterprises evolve their capability through the construction, integration and utilization of resource portfolio (Gebauer et al., 2010). Based on the process perspective of resource to capability, resource orchestration theory links RBV and organizational capability theory. It provides an analytical framework including resource configuration, resource binding, and leverage strategy (Sirmon, Hitt, Ireland, & Gilbert, 2011). Resource configuration refers to a series of behaviors of acquiring, accumulating and stripping resources for the purpose of forming enterprise resource combination. Resource binding refers to the integration and coordination of resources to promote the formation of organizational capacity. Resource leverage refers to the strategic positioning of using resources to gain competitive advantage.

RESEARCH METHODS

Case Selection

Considering the availability and typicality of data and convenience, this study selected HUAWEI Digital Power Technology Co., Ltd. as case. HUAWEI Digital Power Technology Co., Ltd. is the latest subsidiary of Huawei Group. It focuses on communication power, data center power and other IT related digital power service business. Although HUAWEI Digital Power Technology Co., Ltd. is a new company established in 2021 June, it’s business has been developed for many years. Unlike Vertiv (formerly Emerson Network Power) and other Network integrated energy service providers, HUAWEI Digital Power focuses on the optimization of power management based on digital technology. It provides power solutions that fully meet the application scenarios of ICT industry, including full-scenario intelligent sites from fixed network to wireless and intelligent data centers from edge to cloud. HUAWEI Digital Power aims to offer digital-based services supported by AI technology for the IT related power generation, transfer, storage, deploy, distribution and use. They have formed several core businesses, including Data Center Power solution, Site Power solution, Fusion Solar Smart and so on.

Data Acquisition

Data about the selected case were cited from related academic articles, news reports, research reports, interview records, and field interviews.

We collected 35 internal archived files, including the enterprises’ internal journals, business plans, strategic plans, internal memos, conference materials, annual strategic planning documents, customer lists, and historical sales materials. In addition, the research team collected 163 secondhand files by
analyzing related news reports and official websites and collecting industry analysis reports. The multi-level and multi-sources data collection method can be used to cross-check the interviews and control the backtracking bias, and the consequent triangulation data enhances the accuracy of the research results.

In total, the research team conducted four semi-structured interviews on the selected enterprises. Prior to the interviews the research team provided an interview syllabus to each of the enterprises so that appropriate respondents, who were familiar with the interview topics and who could thus prepare for the interviews, were designated. Throughout the interview process, the research team took notes and made audio recordings. Each interview lasted for an average of 40 minutes. We processed and checked the interview notes and audio records, and generated an interview contact sheet within 24 hours. In addition, we made follow-up calls to the respondents, to clarify uncertain and missing information.

**Data Analysis**

In this study, interview and text data were subjected to content analysis. First, the interview contents were categorized textually. Second, all the textual and video material were coded and analysis. Two members of the research team processed the case data, and then performed progressive coding, respectively. The coding process is as follows:

Step 1: Open coding:

The research team created 60 entries based on the digital transformation strategy and extracted 78 primary codes from the entry database. Two coders generated codes respectively, and compared the codes, to determine agreed-on primary codes. If the two coders failed to reach consensus, the research team determined primary codes through discussion.

Step 2: Axial coding by constructs:

From the 78 primary codes, the research team extracted 23 secondary codes, such as technical input level, and input and introduction modes. In the process of secondary coding, two members respectively determined the dimensions of codes in each construct database, and then compared them. If the codes were consistent, the coding results were confirmed. Otherwise, all members of the research team determined secondary codes through discussion.

Step 3: Selective coding by construct dimensions:

According to the type of digital transformation strategy, the 23 secondary codes were categorized under 4 construct coding directories: orchestration tactics for technological resources, human resources, organizational structure, and ecological relationship. If the two members reached consensus on entries, the entries were incorporated into the construct coding database. Failing that, through discussion all members of the research team agreed to either incorporate or delete the entries into the construct coding database.
**FINDINGS**

**Resource Orchestration Tactics for Digital Servitization**

Based on a coding analysis, we developed four resource orchestration tactics for digital servitization: technological resources orchestration, human resources orchestration, organizational structure orchestration, and ecological relationship orchestration.

**Technological Resource Orchestration**

The technological resource orchestration tactic includes three aspects, namely, technological level, input mode, and introducing mode.

**Technology Level**

The digital technology input has different levels, which can be divided into three levels according to the penetration into the organization structure. They are interactive digital technology, process digital technology, and fundamental digital technology. The interactive digital technology mainly refers to communication tools used on vendor-user interface as customer online community. HUAWEI Digital Power opened an online community as shared space for digital power businesses. The process digital technology refers to the technologies involves in organizational operation process, represented by the HUAWEI Digital Power’s MRP/ERP management information system. HUAWEI Digital Power The fundamental digital technology refers to the basic digital construction, represented by the data collection system and data analysis technology based on AI. For example, HUAWEI Digital Power redesigned hardware part of the data center by embedding over 200 sensors and developed matched application program. This fundamental technology combination enables remote monitoring and intelligent power management service offerings. **Technology input mode**

HUAWEI Digital Power invested in digital technologies in two ways, namely, self-development and outsourcing (purchasing or collaborating). For example, HUAWEI Digital Power established partnership with Intelligent Power Solution LTD. of Hungary. That Hungarian corporation shared their CRM system with Huawei Digital Power. Huawei Digital Power also purchased several related technologies from competitors in the world. However, most of the critical technologies are developed by themselves. They constructed the framework of their hardware and software combined system, developed the hardware including the modular data center architecture, equipment cabinet, and software with AI function. They shape the core competitiveness through systematic technology innovation. **Technology introduction mode**

HUAWEI Digital Power takes a prudent attitude toward new digital technologies. They launched their digital power solution after pilot application and optimization. They even registered Digital Power Technology Co., Ltd. after years of business probe. Enterprises take a prudent attitude maybe because of
different reasons. HUAWEI Digital Power implemented the trial-and-error method on a small scale to test the feasibility of the business model.

**Human Resource Orchestration**

**Labor Resource Structure**

HUAWEI Digital Power built man-machine cooperative labor structure through labor substitution and machine enhancement. First, digital technologies replace certain manual working. Huawei smart I-V Curve diagnosis system replaced manual inspection, shortening the inspection time for a 100MW data center from 40 days to 15 minutes. Second, digital technologies strengthen Huawei’s engineers. AI technologies keep on learning the power consuming behaviors and formatted power management patterns to support Huawei’s site engineer’s decision-making, which help to optimizing the customer power sustainable consumption.

**Human resource scale**

Some jobs in HUAWEI Digital Power were eliminated while some new jobs were created. The total scale of the labor force reduced significantly. Although department like the R&D department expanded a lot to enhance the technology innovation, the human resource used in site construction reduced as the modular constructing way was developed. Moreover, human resource used in other working like equipment inspection was almost eliminated as the AI inspection technology was introduced. It can be predicted that, in the future, HUAWEI Digital Power will have more manpower in data mining, machine trainers, R&D and other knowledge intensive departments, while the operation personnel will be reduced furthermore.

**Human Resource Management**

HUAWEI Digital Power adjusted human resource management, including recruitment, training, and assessment. First, an organizations’ dynamic nature increases in the context of digitalization, thus, HUAWEI Digital Power’s employee recruitment highlights characteristics such as learning ability and young mentality. Second, in order to improve the ability of organization members to use digital technology and cooperate with digital tools, HUAWEI Digital Power increased employee digital ability training. For example, they trained site engineers’ ability of data mining. Third, HUAWEI Digital Power adjusted performance assessment contents. They added consideration for site engineers in customer relationship maintenance into the performance assessment.

**Organizational Structure Orchestration**
Organizational structure orchestration regards to structure and relationship in organization.

**Structure**

First, reinforcing the front office. While the process automation decreased the number of technology support engineers, the customer-facing front-office department needs to be strengthened. Thus, the organization structure developed into front-back-office structure. Second, the business functions of the digital department are strengthened. HUAWEI Digital Power enhanced Business Intelligence Department. Third, flattening organization structure. Business automation improves the span of management, so the organization shows a trend of flattening. Fourth, strengthening leadership of digital department. The setup of HUAWEI Digital Power indicates that the digital power solution business was upgraded to a strategic business unit. The top leader of HUAWEI Digital Power is one of the group board members is also a corroboration of that.

**Relationship**

First, the vertical organizational relationship is weakened, whereas the horizontal organizational relationship is strengthened. For example, the budgets of HUAWEI Digital Power are highly integrated through digital operations. The digital department’s budgets include not only its internal expenses, but also digitalized expenses of the sales and marketing departments. Second, the organizational relationship translates to extroverted rather than introverted. That means HUAWEI Digital Power become more customer oriented. Third, HUAWEI Digital Power reset the business process to achieve a reasonable balance of labor between intelligent tools and human employees. It aims to give full play to the advantages of intelligent tools, such as efficient and accurate, 24-hour standby, etc., and at meantime, give play to the unique abilities of human, such as "emotional protection" and intuition.

**Ecological Relationship Orchestration**

Digital servitization offers opportunities by connect enterprises, employees, and consumers, making their boundaries fuzzy. Integrated power service industry is no longer a vertical business, but an ecological business. It transcends the scope of technologies and traditional organizational boundaries. Equipment manufacturers, customers, external collaborators, and public sectors all connect and coordinate with each other. Internally, corporations’ strategies, technologies, and operations are harmoniously combined; externally, corporations maintain the benefit sharing and controllable collisions. Within business ecosystem, value is co-created and shared. HUAWEI Digital Power established a service partner system. Digital power service suppliers all around the world can join its networking after certificated. However, Huawei ranked the partnership by five star levels according the
partner’s size and cooperation performance. Customers and suppliers are linked more transparently and flexibly. Technologies increased involvement of customers into value co-creates. The relationship between integrated power services suppliers with public sector are more diversified. HUAWEI Digital Power plays a significant helpful role in achieving global carbon neutral goal. They also help to establish necessary electricity power station at some less developed area were lack of power facilities.

CONCLUSION

Through case study, we generalized four fundamental tactics of digital servitization strategy, which are technological resource orchestration, human resource orchestration, organizational structure orchestration, ecological relationship orchestration.

It can be predicted that the digital servitization resource orchestration strategies would be different in the investment level, investment mode, organizational structure adjustment, external relationship. The difference may stem from the enterprise strategic ambition. A manufacturer’s digital servitization strategy maybe conservative. Manufacturer holds conservative digital servitization strategy prone to extend its existing servitization business by superficial digital technology. While some manufacturers’ digital servitization strategy may be aggressive. The manufactures hold this kind of strategy aims to reconstruct the business model from bottom up and build up core competitive.

Basing on the resource orchestration theory, we develop a digital servitization strategy framework including three aspects: resource configuration, resource bundling, and leveraging strategy. With regarding to resource orchestration, this study identifies three types of key resources (technological, human, and external ecological), and the methods for acquiring them. Each type of resource must be acquired in an appropriate way. Specifically, technical resources are developed independently or outsourced; human resources are acquired through enhancement, replacement, or job transfer. Resource bundling mainly refers to the adjustment of human resource management, organizational structure (including the structure and relationship), and external relationships. It serves to build up a coordinated internal/external organizational relationship and maintain the stability of resource structure for digital servitization. Specifically, human resources are stabilized mainly through human resource management and organizational structure adjustment; technological resources are stabilized mainly through organizational structure adjustment (e.g., process adjustment) and external relationship coordination; and external ecological resources are stabilized mainly through the adjustment of external relationships. Ultimately, resource development and resource bundling are oriented toward a digital servitization competition strategy. Two digital servitization strategies are proposed, which are conservative or aggressive strategy. Two digital servitization strategies differ in actions of resource orchestration tactics. The choice of a competition strategy is affected by diverse factors such as resource advantages, corporate culture, industry uncertainty, and competitive situation. Figure 1 shows the strategic implementation framework.
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