

Connect and Rule: The Role of Serial Acquisition, Subsidiary Autonomy, and Network Orchestration in Providing Value within Servitizing Industrial Networks

Abstract

Servitization is transforming the way firms are positioned in their networks due to technological advancement in production and transportation, increasingly sophisticated ways firms engage with customers, and change in the perceived value of products versus the value they provide as services. The purpose of this research is to investigate the role of serial acquisition, network orchestration, and subsidiary autonomy in providing value within servitizing industrial networks. A conceptual framework is developed based on the case study of a large Swedish industrial group specializing in selling industrial products and providing industrial solutions through its numerous subsidiaries. The analysis of 14 dyadic interviews with the five subsidiaries and seven customer firms and secondary data reveal interesting findings concerning serial niche acquisition strategy and subsidiary autonomy, network dynamics, and the role of subsidiary sales force regarding network characteristics and servitization. First, we find that network orchestration and subsidiary autonomy go hand in hand for creating greater value when following a serial acquisition strategy in servitizing industries. Second, network brokerage and connecting structural holes provide firms with a unique capability to orchestrate servitizing industrial networks, tackle competition challenges, and leverage these networks for value provision.

Keywords

Servitization, industrial networks, serial acquisition, subsidiary autonomy, network orchestration, value provision

1. Introduction

How could a firm maintain its value proposition and market position during a transition from a product-centered marketing strategy to service-centered marketing strategy? That was one of the main concerns of Sindcom (pseudonym) as the Group pondered about the role of its sales force in an industry that had been largely product-driven but on the verge of significant change toward servitization. This position stems from the notion that dematerialization of physical products is transforming the way firms are positioned in their networks (Vendrell-Herrero et al., 2017) due to technological advancement in production and transportation, increasingly sophisticated ways firms engage with customers, and change in the perceived value of products versus the value they provide as services (Vargo & Lusch, 2004).

Given the phenomenon's prevalence and central position as a managerial problem (Hakanen, Helander, & Valkokari, 2017), servitization has garnered a substantial body of research (Kowalkowski et al., 2017; Vendrell-Herrero et al., 2017). This line of research suggests that servitization has become central to managerial decision-making and value provision and has important implications for business networks. In the present study, servitization is viewed as a set of strategic choices and a dynamic process of transitioning between product-driven and service-driven value propositions. Servitization phenomenon has witnessed growing interest in business-to-business (B2B) marketing and has been examined in relation to such issues as service innovation, distribution, and digitalization (Hakanen et al., 2017; Spring & Araujo, 2013; Vendrell-Herrero et al., 2017).

However, despite growing research on servitization, the phenomenon still requires further understanding concerning its nature, evolution, and interplay with value provision activities by industrial groups that follow serial acquisition strategy (Kowalkowski et al., 2017). In particular, while service is not only a firm-specific phenomenon that requires holistic understanding as it occurs in networks with multiple actors (Story et al., 2017; Vendrell-Herrero et al., 2017), little is known about underlying mechanisms of providing value in fast-evolving business networks during servitization process (Chakkol et al., 2018; Spring & Araujo, 2013). Likewise, B2B

marketing research has not yet investigated how industrial firms, who rely on serial acquisition strategy and operate within dynamic networks, design and implement subsidiary management policies and face servitization challenges. Insights into serial acquisition, network orchestration, and subsidiary autonomy remain fragmented and entail an integrative exploratory approach that may yield in-depth empirical insights.

In view of this gap, the purpose of this research is to investigate the role of serial acquisition, subsidiary autonomy, network orchestration in providing value within servitizing industrial networks. We propose the following research question to be addressed in this study: *What is the interplay between serial acquisition, network orchestration, and subsidiary autonomy in explaining the management of industrial networks and value creation during servitization process?* In addressing our research question, we examine a case study of a large Swedish firm specializing in selling industrial products and providing industrial solutions through its numerous subsidiaries and analyze both 14 dyadic interviews with the five subsidiaries and seven customer firms and secondary data available through company reports and online documents. We find that network orchestration and subsidiary autonomy go hand in hand for creating greater value for firms that follow serial acquisition strategy in servitizing industries. We also find that network brokerage and connecting structural holes stemming from rapid internal network growth provide a unique capability to orchestrate and manage industrial networks, overcome inter-subsidiary competition, and leverage these networks for providing value that is aligned with changing customer needs.

Our study informs B2B marketing and marketing strategy by exploring the nature and role of acquisition strategies and network dynamics in the effectiveness of providing value and offers an empirically supported conceptual framework of a unique business model for value creation and growth in industrial networks facing servitization evolution. In particular, we make three contributions to theory. First, we explore unique aspects of serial acquisition strategies, and how they are leveraged to drive growth and transformation within the organization. Second, our research examines network orchestration as a critical capability and set of activities for weathering network fluidity, complex network dynamics, and potential network tensions as well as for steering subsidiaries toward better leverage of complementary resources and successful servitization transformation. Third, we contribute to the centralization vs. decentralization debate (Ferner et al., 2004; Rau, Haerem, & Fredericks, 2015) and examine subsidiary autonomy within the unique context of servitizing industrial groups.

2. Background and literature review

Background and literature review are excluded due to space limitations

3. Methodology

Methodology is excluded due to space limitations

4. Findings

This section uses empirical findings from the case study to examine mechanisms of providing value in B2B networks and three core elements in providing value within servitizing industrial networks.

4.1. Value provision through serial acquisitions

A Group of this size with such a loosely integrated structure is not common in the industry (OMX Nordic, 2019). Its idiosyncrasy had major implications on its subsidiaries' offerings. The future growth of the Group was planned to be achieved primarily through the acquisition of new subsidiary firms. Indeed, at first glance, the subsidiary firms' offerings and operations seem not to be influenced by the Group at all, but the Group has "shadow" effects on each subsidiary that leads them somehow unconsciously. This argument might be exemplified with the Group's aggressive and successful acquisition strategy of buying small firms with improvement potential and scarce resources. Consequently, each subsidiaries' and Group's offerings, their relationships

with customers and suppliers, and the group's network structure are heavily influenced by this strategy.

Our findings confirm that the primary motivation of Sindcom for serial acquisition strategy is to identify and leverage complementarities for value provision. Makri, Hitt, and Lane (2010) revealed that complementary knowledge contributed post-acquisition performance of firms and argued that firms should identify and acquire firms that possess complementary resource and capabilities. Sindcom has a long record of experience in acquisitions, which was accounted for large share of their sales growth. More than 100 firms have been acquired over the last decade. The Group follows a goal-oriented governance mechanism with a focus on growth, margins and tied-up assets (ibid). The acquired firms are expected to meet profitability goals that can support the Group's growth objectives. For instance, MD of S5 indicated that;

"If this is my own company I would may be run the company in another way that I am doing now. My job is now giving [Sindcom] as much profit as possible. If it was my company I could may be live with less profit" (S5)

The Group's acquisition strategy was based on two fundamental approaches; (i) acquiring niche technology firms in countries with a strong trading tradition such countries are Benelux, Denmark, Norway, Sweden, Finland, Switzerland, the UK, Austria, Central Europe, and Asia; (ii) acquiring international niche firms with proprietary products. Through its network relationships with customers, suppliers and other market actors and also its good reputation, Sindcom has a good understanding of potential acquisitions targets and continues to acquire a high number of firms each year operating in niche areas and with net sales exceeding SEK 30 million. Nonetheless, in contrast to what the past research suggests concerning serial acquisition criteria (Degbey, 2015), Sindcom mainly focuses on network relationships of the target firms beyond their products and technical expertise. The success of the Group's serial acquisition strategy bred success over time and helped expand Sindcom beyond Nordic and European markets.

The Group follows a strategy of engaging with potential acquisition firms at an early stage before a potential take-over. The firm pays specific attention to the evaluation and due diligence processes to create sustainable growth. Accordingly, not every firm who is aware of the Group's acquisition success and want to be the part of the Group is acquired but only those that succeed in due diligence processes. The Group also carefully follows negotiation, implementation, and follow-up phases to achieve successful acquisitions that respond the concerns of the relevant shareholders, namely the key individuals of the acquired firms (i.e., owners, management team), customers, and leading suppliers and build continuous dialogue among them. Such serial acquisitions, in turn, propels future acquisitions success and enhances Sindcom's value provision in line with servitization processes. In this vein, Sindcom's past acquisition experience facilitates its subsequent strategies and effectiveness in its value provision activities (cf. Haleblian & Finkelstein, 1999).

4.2. Subsidiary Autonomy

Our analysis reveals that a high degree of autonomy is granted to the management of the acquired firms in managing their operations and making operational and strategic decisions. Moreover, the self-determination exercised by the managing directors of our subsidiaries is also an essential factor for retaining key employees in acquired firms. In Sindcom's serial acquisition model, acquired firms retain their name, culture, and management when they become part of the Group. Several participants emphasized the Group's decentralized structure and autonomy given to them as long as they perform well. For example, MD from S5 indicated:

"Comparing to what I know about other competitors, [Sindcom] is more decentralized organization and lets the MDs run their business without interfering as long as it is going well, of course." (S5)

“The biggest advantage of being part [Sindcom] is that it is very decentralized. They do not care what I am doing as long as we are performing well. I like that of course very much.”
(S5)

For example, the manager from S4 stated:

“[Sindcom] is a very good owner that gives a lot of freedom to each individual company”
(S4)

The Group keeps the identity and business culture of the acquired firms as before the acquisition. Sindcom’s business area director noted “The best decisions are made by the people who best understand customer needs and processes,” and this approach was followed within the Group across all subsidiaries. Subsidiary autonomy was partly made possible by the fact that Sindcom has acquired profitable and well-managed firms that able to continue business as usual. This was also emphasized by our participants. For instance, the S3’s identity and business culture change were minimal after the acquisition. The main changes were about the financial side –the Group requires more reporting- and about the use of Sindcom’s institutionalized practices to foster the professionalization of the newly joined subsidiaries. The manager of S3 stated that

“It is an important issue for [Sindcom] not to change the culture of companies they are acquiring. Because if the company is successful and profitable why would you do some changes” (S3).

“The main changes [after the acquisition] were on the financial side...that we have to do more reporting, budget and strategic plans now... these are the changes” (S3)

Some of the acquired firms publicly shared the information that they are part of the Sindcom group, as they believed this gave some reputational advantages (i.e., being a part of the Group, which is listed in stock exchange and has high brand recognition/value stemming from its reputation of assuring quality and reliability) on the eyes of their customers. However, they further highlighted that the strategy of Sindcom is to keep the identity of every acquired firm. The MD of S3 described this as;

“We are not obliged to show that we are part of [Sindcom] group. It is free to show or not. It is important in the [Sindcom] group that every company has their own identity” (S3)

The acquiring firm granted autonomy as they believed it “creates a favorable environment for nurturing an entrepreneurial spirit in the organization.” The autonomy was also reflected in the retention of managers and executives of acquired firms. Krug and Aguilera (2005) noted that an average of 68% acquired firms' executives often depart five years following the acquisition. However, in the case of our sample subsidiary firms, all managers have remained in their positions in the same period of five years.

4.3. Network orchestration

Sindcom has very distinctive characteristic when it comes to its organizational structure. Its entire network, consisting of subsidiaries, suppliers, and customers, has vast horizons with fuzzy boundaries, while it is loosely controlled with weak links especially between subsidiaries.

The belief “*I do not believe in synergies*” of business area director of the Group constitutes one of the most distinctive strategies of the Group from typical industrial firms in the market. As a consequence of this logic, the Group leaves the majority of its bought subsidiaries simply as they are, and thus acts as a shadow organization with very streamlined workforce and with no operational directives to the acquired firms. Therefore, it has a minimal organizational structure dealing with the coordination of the Group subsidiaries. The subsidiaries, on the other hand, are left mainly autonomous acting mostly independent and solitarily in the network. There are even cases of hostile competition between subsidiaries where products overlap extensively and/or historical conflictions exist.

Participants noted the lack of productive relationships among the acquired subsidiaries, while each subsidiary has a close relationship with Sindcom. This created an apparent lack of coordination and information exchange between subsidiaries when serving their customers. Birkinshaw, Hood, and Young (2005) empirically demonstrated that subsidiary autonomy

facilitates the development of inter-firm relationships because of decreased control from and negotiation with the parent firm. However, in the case of Sindcom, subsidiaries could not effectively develop these relationships. This notion was partly attributed to Sindcom's aggressive serial acquisition strategy and ensuing coordination challenges between the subsidiaries.

The network structure in which Sindcom occupies a brokerage position gives certain advantages to the Group and its subsidiaries, since it is based on combining subsidiary autonomy with loose network coordination. However, the lack of horizontal relationships and communication among subsidiaries increased competition and reduced synergistic opportunities between subsidiaries. For example, a potential advantage could be that group members cooperate on maintenance services after the products are in use. For example, a manager from S3 argued the following;

"There could have been more meetings between the sister companies just to keep up the relationships... there is no meeting between salesmen, if we had good relations between the sister companies we could probably create more business" (S3)

"There are small interactions between some companies at local base, but we could do a lot more" (S3).

"With a lot of our subsidiaries, we are also competitors and quite though competitors... We don't share customers with each other"

"We can source components from our sister companies, but we also compete with sister companies against each other" (S4).

These quotes highlight the prevalence of competition among subsidiaries and the challenges of network orchestration. Nevertheless, it does not mean that subsidiaries never communicate or collaborate. Gammelgaard et al. (2012) argued that autonomy is also associated with some degree of freedom to engage in intra- and inter-organizational network relationships and transactions. Similarly, MDs and some other executives of subsidiaries took initiatives in arranging periodical meetings to share the experiences and ideas about the market and firms' operations until recently.

Furthermore, the Group had FAME seminars to bridge the gaps employees might have about their markets. Hence, there is clear evidence of some collaboration within the Group with further improvement potential. It is already revealed that S1 combines offerings of subsidiaries in collaboration with them, which can be given as the most appropriate example of collaboration within the Group. Some interviewees from subsidiaries also stated that communication between subsidiaries has been improving considerably for a few years. Subsidiaries are not unaware of what other subsidiaries do anymore. There are also a few exceptional cases where limited market information is shared, or compensations of products not present in the portfolio from other subsidiary are made independently from S1. For example, the MD of S4 highlighted the importance of FAME group initiative in fostering the development of network relationships between subsidiaries.

"From my personal perspective, I have been part of FAME group, the management program, which has been very positive for me you get to know managers of the other companies" (S4).

Majority of the subsidiaries are also in favor of more communication and collaboration between subsidiaries to share market information, price strategies, and experiences, while keeping them autonomous. On the other hand, customers' view on collaboration differs toward opposite directions. Some participants stated that it was actually beneficial for customers if the subsidiaries did not collaborate but employ fierce competition with each other. Indeed, some customers were not even aware that several suppliers bought Sindcom's products for years were in the same Group, which might indicate "success" of given disintegrated structure.

Regarding the relationships with the customers, our research participants indicated what their customers valued was not solely constituted of product-service mix that forms "offerings" in conventional view, but also considerably of relationships. Hence, to sustain value provision,

the Group has focused on developing effective network relationships and communication with the customers. As subsidiary autonomy gave some degree of freedom to engage directly with the customers, the subsidiaries worked on the strategies toward more effective subsidiary-customer relationships. Moreover, the subsidiary firms also emphasized that many final customers wanted to focus on their operations and core competencies, so they had less time and resources to deal with suppliers. This trend affected relationship and communication patterns, and thus subsidiaries' marketing strategies. For instance, S5 planned to change its sales force structure owing to customers' requirement on reduced meeting times.

Drawing on our findings, we draw a conceptual framework (fig. 2) where an effective combination of serial acquisition, subsidiary autonomy, and network orchestration is seen as an essential ingredient for success in providing value when industrial groups face a servitization challenge. Our framework also highlights that serial acquisition, subsidiary autonomy, and network orchestration are not simple but sophisticated set of activities with multiple components and reciprocal influences on each other. Sindcom's unconventional approach to each of these activities and its effective integration of subsidiary autonomy and network orchestration following serial acquisitions underlie its success in its journey toward offering holistic solutions rather than goods and observed growth over the years.

[Insert Fig. 2]

5. Discussion and conclusions

5.1. Theoretical contributions

Our research makes three major contributions to the extant research on B2B marketing and servitization. First, we explore unique aspects of serial acquisition strategy applied by the participant firm, and how they are leveraged to drive growth and transformation of the acquired subsidiaries and the Group as a whole. We find that although frequent acquisitions were adopted early on in the evolution of the Group, the Group has relatively recently started to apply it as a systematic strategy to boost growth and transform subsidiaries especially concerning servitization processes adopted by the acquired firms. It was revealed that the past serial acquisition experience and the popular success of the acquired firms propelled the subsequent acquisitions like a snowball (cf. Haleblian & Finkelstein, 1999). Likewise, we find that serial acquisitions serve as a ground for the Group's network orchestration activities to steer the subsidiaries toward greater synergies and value creation during servitization implementation. This finding adds to the extant research on serial acquisition (e.g., Degbey, 2015; Laamanen & Keil, 2008) by highlighting how it can be utilized as a strategic tool to succeed in providing value while experiencing rapid network growth and increasing market demand for servitization.

Second, network orchestration emerges as a critical capability and set of activities for weathering network fluidity, complex network dynamics, and potential network tensions as well as for steering subsidiaries toward better leverage of complementary resources and successful servitization transformation. For example, connecting structural holes in the network, coordinating a variety of customer demand with subsidiaries' capabilities, embracing and transcending inter-subsidiary competition, and diffusing exemplary servitization practices across the network are found to be reliant on effective network orchestration by the Group. Accordingly, we reveal that, beyond its relevance to interorganizational networks (Dhanaraj & Parkhe, 2006; Möller & Svahn, 2003), network orchestration can be a critical ingredient for navigating and utilizing internal networks toward greater value provision and success at servitization. That said, our findings from customer interviews reveal that there might be mismatches between the suppliers' and customers' perception of value provision during servitization process, and network orchestration additionally entails better matching customers' view of the value of product-service bundles with that of subsidiaries.

Third, we contribute to the centralization vs. decentralization debate (Ferner et al., 2004; Rau et al., 2015) and examine subsidiary autonomy within the unique context of servitizing industrial groups. We reveal that subsidiary autonomy and ensuing enhanced network agency of

the subsidiaries synergistically lead to higher value for firms that follow a serial acquisition strategy in servitizing industries. Subsidiary autonomy coupled with network orchestration can both empower subsidiaries for being more responsive to unique market demands and enable their better coordination toward overarching goals. Subsidiary autonomy allows greater room for subsidiaries to develop customized solutions to complex customer demands in the form of product-service bundles while subsidiaries utilize the benefits of being part of the coordinated internal network. Accordingly, our findings reveal that subsidiary autonomy is not mutually exclusive with exerting influence over subsidiaries, and both subsidiary autonomy and network orchestration strategies can simultaneously be applied to rise to the challenge of servitization evolution coupled with high environmental dynamism. Our research, therefore, further highlights the relevance of subsidiary autonomy to B2B marketing and network behavior as well as the effectiveness of servitization processes beyond the much-researched context of subsidiary-headquarter relationships (Ferner et al., 2004; Johnston & Menguc, 2007; Kawai & Strange, 2014).

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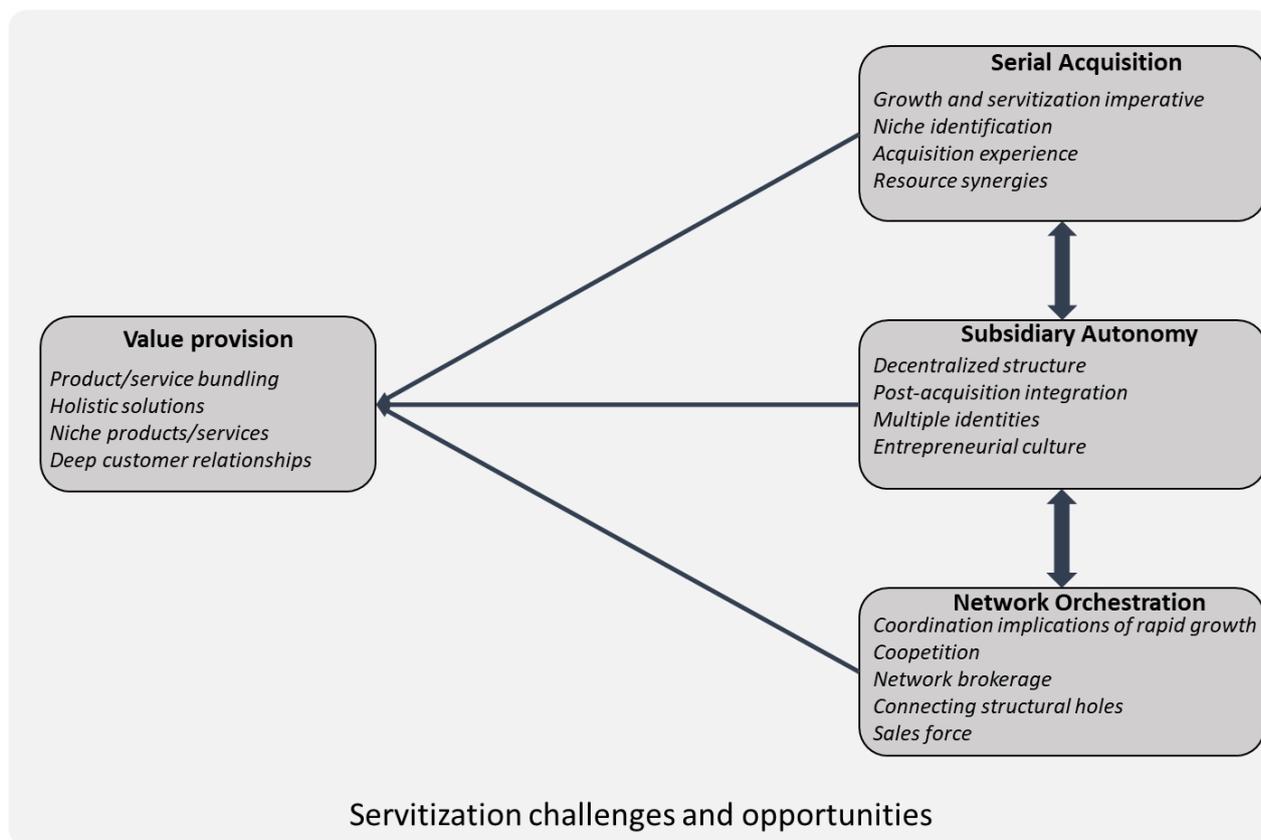


Fig. 2. The role of serial acquisition, subsidiary autonomy, and network orchestration in providing value within servitizing industrial networks