

Institut für Technologiemanagement



Universität St.Gallen

## Organizational Design of International Service Business:

How do companies setup structures for  
worldwide success in service business?

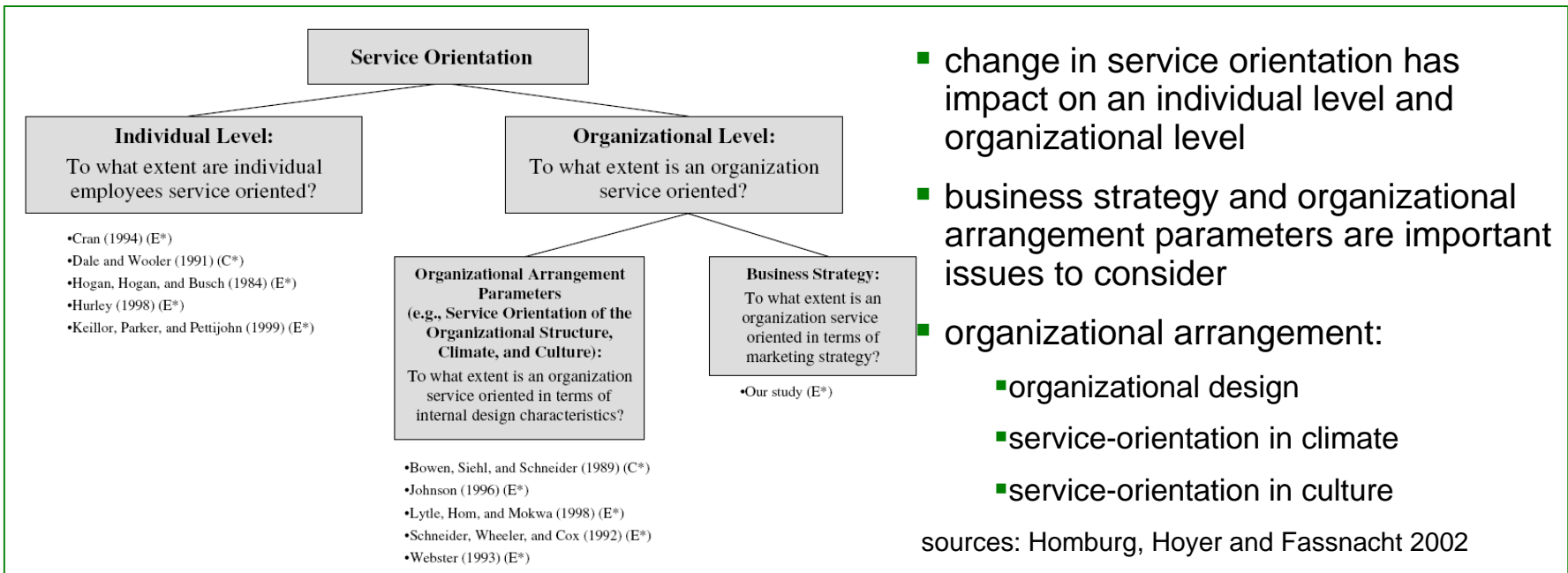
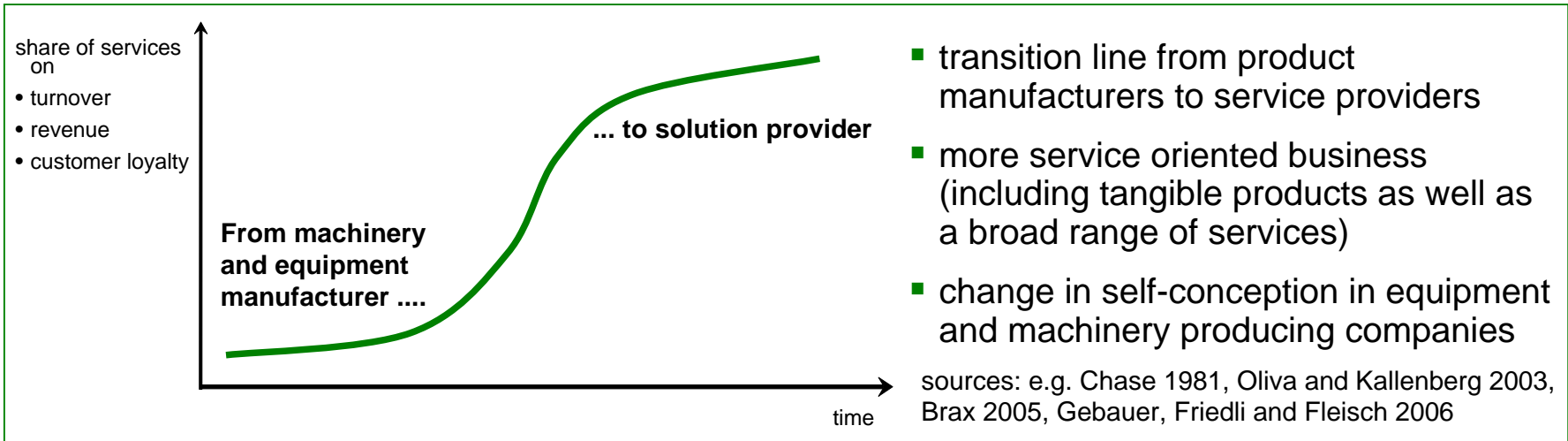
ReSer conference 2008

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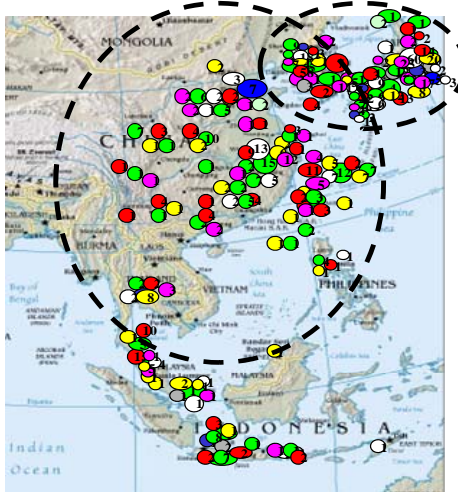
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- ✓ Problem / Key questions
- ✓ Theoretical approach
- ✓ Research Methodology
- ✓ Key findings
- ✓ Conclusion
- ✓ Limitations

# Development in service business also affects the organizational design

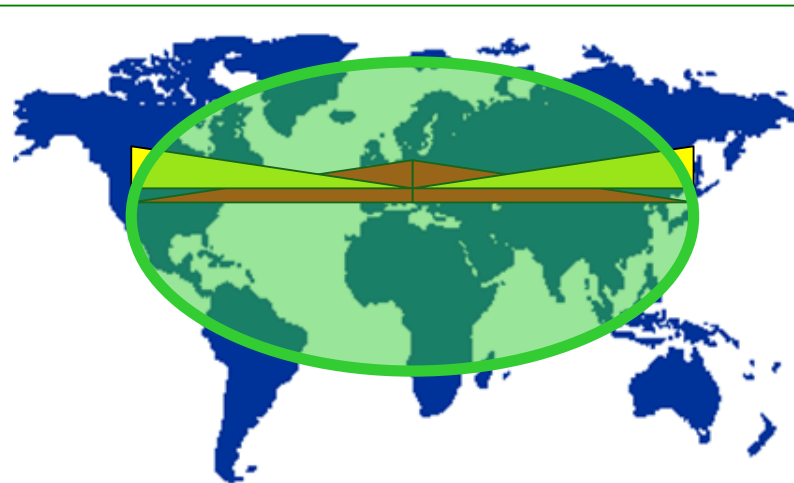


# In Service business local presence is important, but needs a management approach, which fits the strategic position.



- Internationalization affects service business as well as product business
- In order to deliver services worldwide, companies need to setup local structures for service sales and delivery
- International industrial companies tend to choose direct market entry for delivering services in foreign markets

sources: e.g. Dicken 1991, Reich 1991, Grönroos 1999, Vandermerwe and Chadwick 1989



- The international orientation in management can be described as
  - ethnocentric
  - polycentric
  - geocentric
- Organizations should meet local demands and fulfill central strategic objectives

source: Perlmutter 1969

# Key questions

*How do companies setup structures for worldwide success in service business?*

- What kind of organizational designs can be observed in the industry?
- Can organizational arrangement be an enabler for service-related performance outcomes?
- What does the international orientation in management look like in different organizational setups?

# Theoretical approach: Contingency Theory

## Methodology: Case study research

### Contingency approach:

The organizational arrangement has strong interrelations with a company's strategy and influences the performance of the organization. Organizational structures have to be adjusted for being efficient in different environments.

- ❖ Organizational performance: depends on appropriate alignment: of environment, strategy and organizational design factors (Burns and Stalker 1961; Mintzberg 1979)
- ❖ Usefulness of a strategy: depends on organizational design factors and fit with environment (Hambrick 1983, Hofer 1975)

### *Action research techniques:*

- 👍 Implementation of service-strategy, new service products, incentive systems
- 👍 Changes in organizational arrangement, setup of the service organization
- 👍 Investigation of the change process when growing in the service business

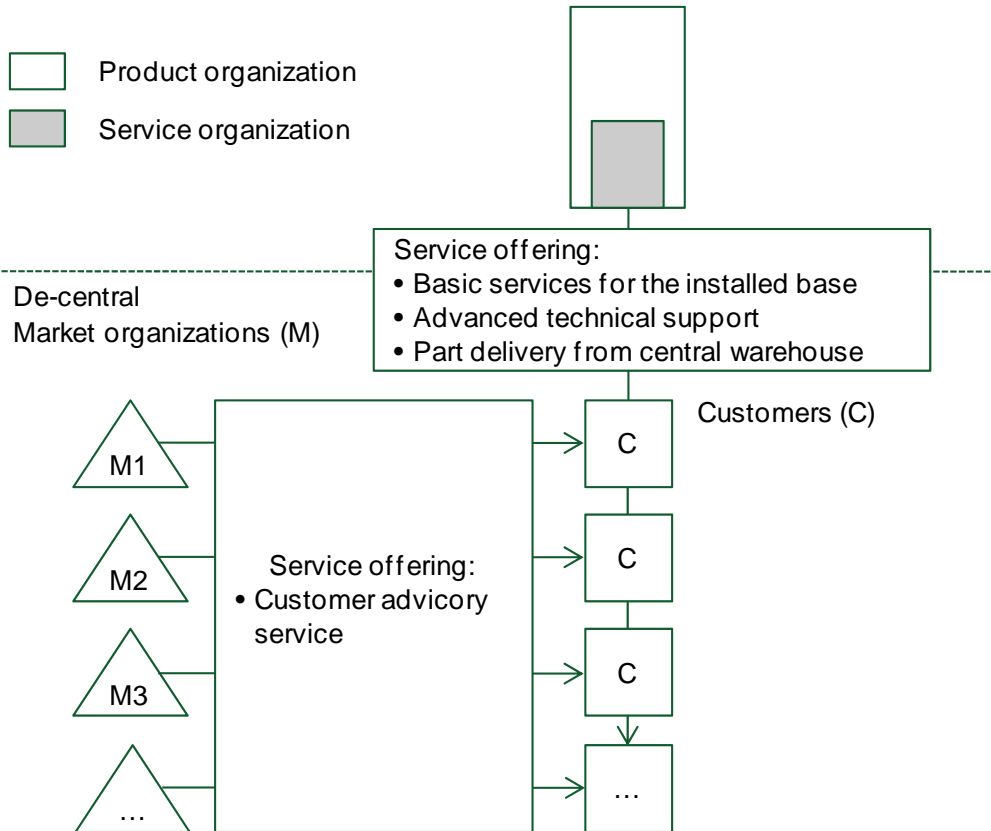
### *case study research: Swiss and German companies trying to enhance service business*

- ❖ Workshops: address special issues in smaller groups
  - business strategy
  - service offering
  - service culture
  - ...
- ❖ Interviews: detailed questions on triggers, challenges, actions

# Integrated and ethnocentric global service organization

## Configuration

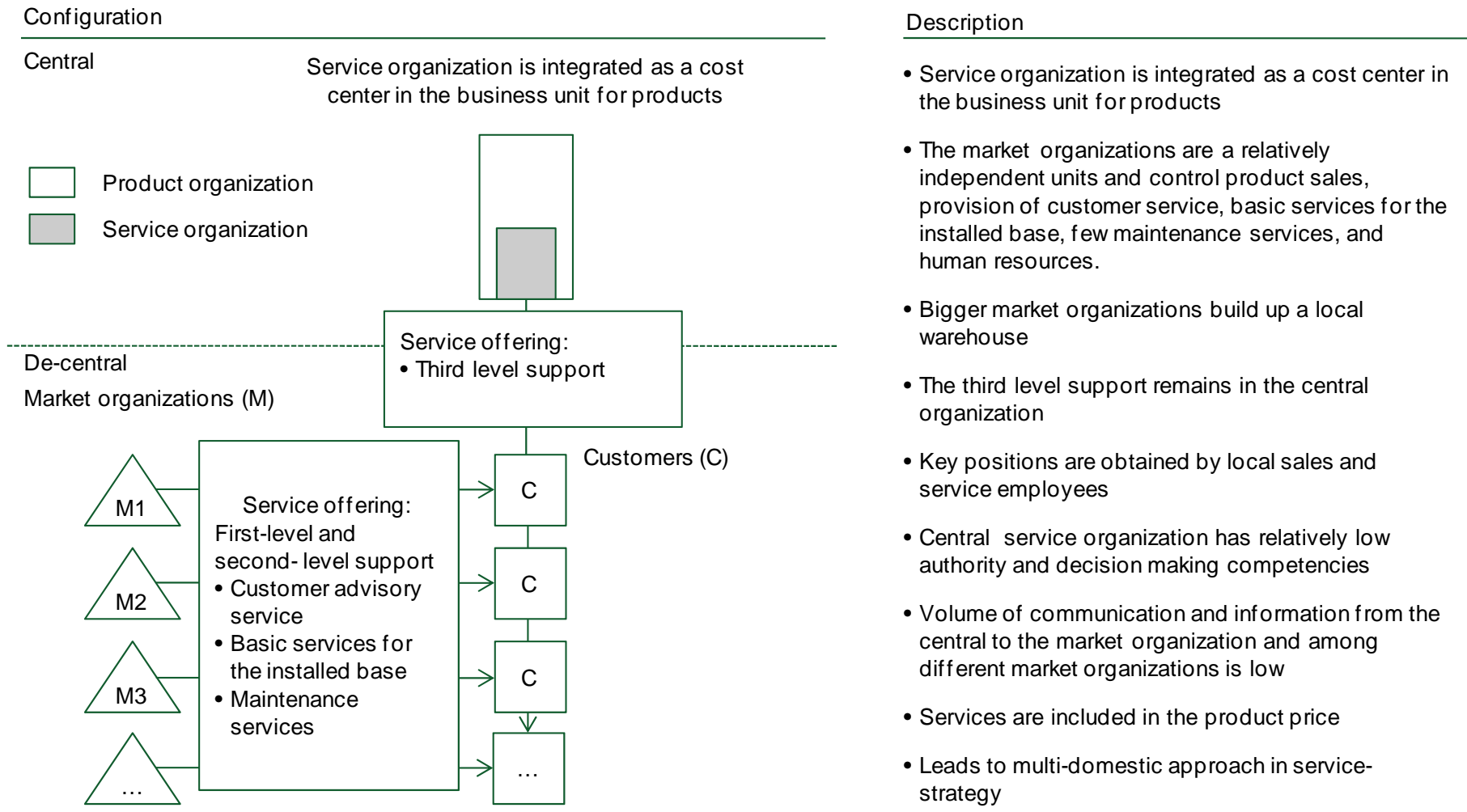
**Central** Service organization is integrated as a cost center in the business unit for products



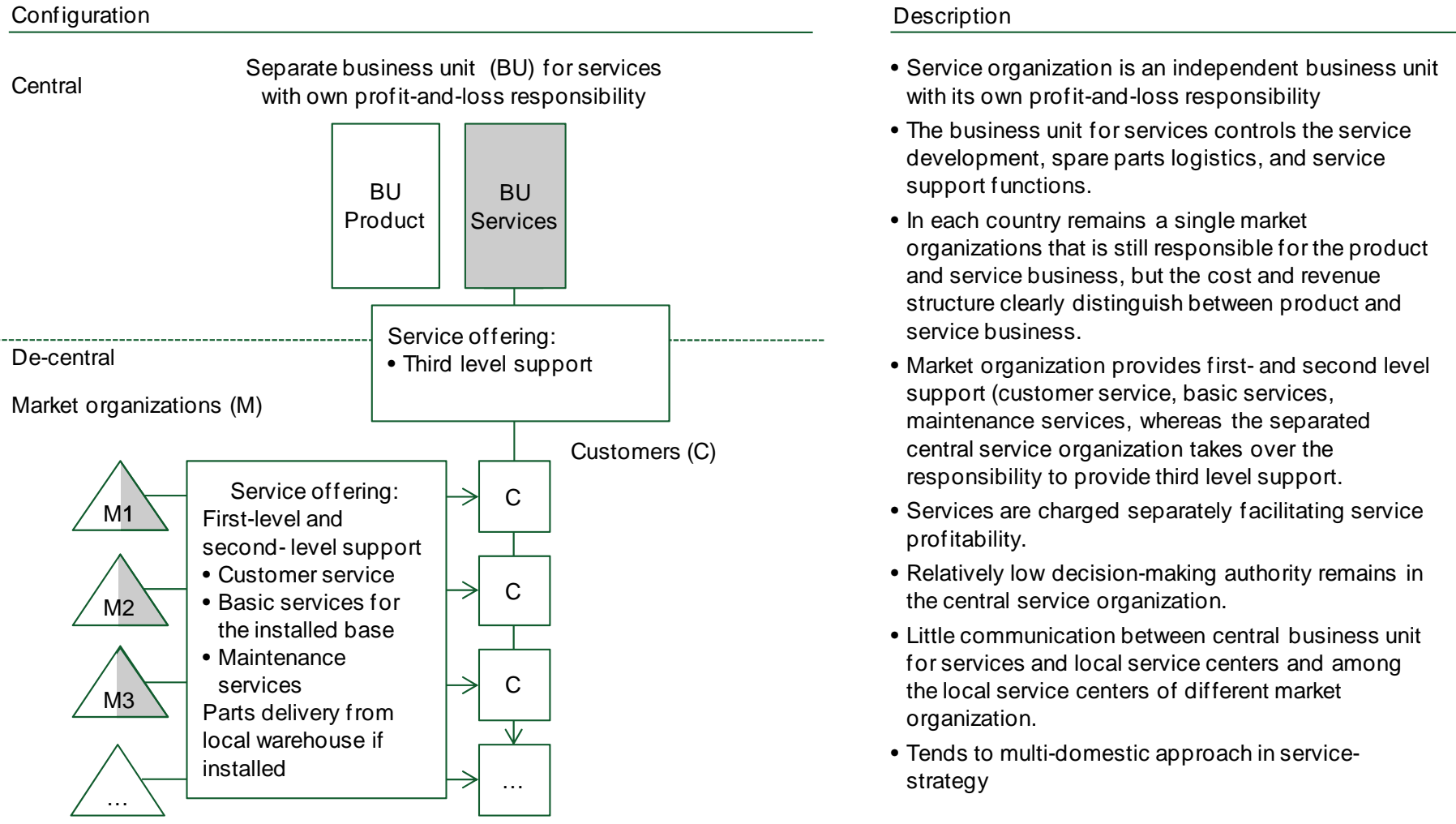
## Description

- Service organization is integrated as a cost center in the business unit for products
- Central product organization controls marketing, sales, services, manufacturing, R&D, accounting/finance, and human resources
- Market organizations (sales agents or subsidiaries) sell products and provide customer advisory service to augment the product during the sales phase of the product
- The central service organization provides basic services for the installed base and advanced technical support worldwide
- Most services are included in the product price
- Market organization has low decision-making authority
- Transnational approach in service-strategy as market organizations are dependent on central organization
- The central organization communicates intensively with the local organization

# Integrated and polycentric global service organization

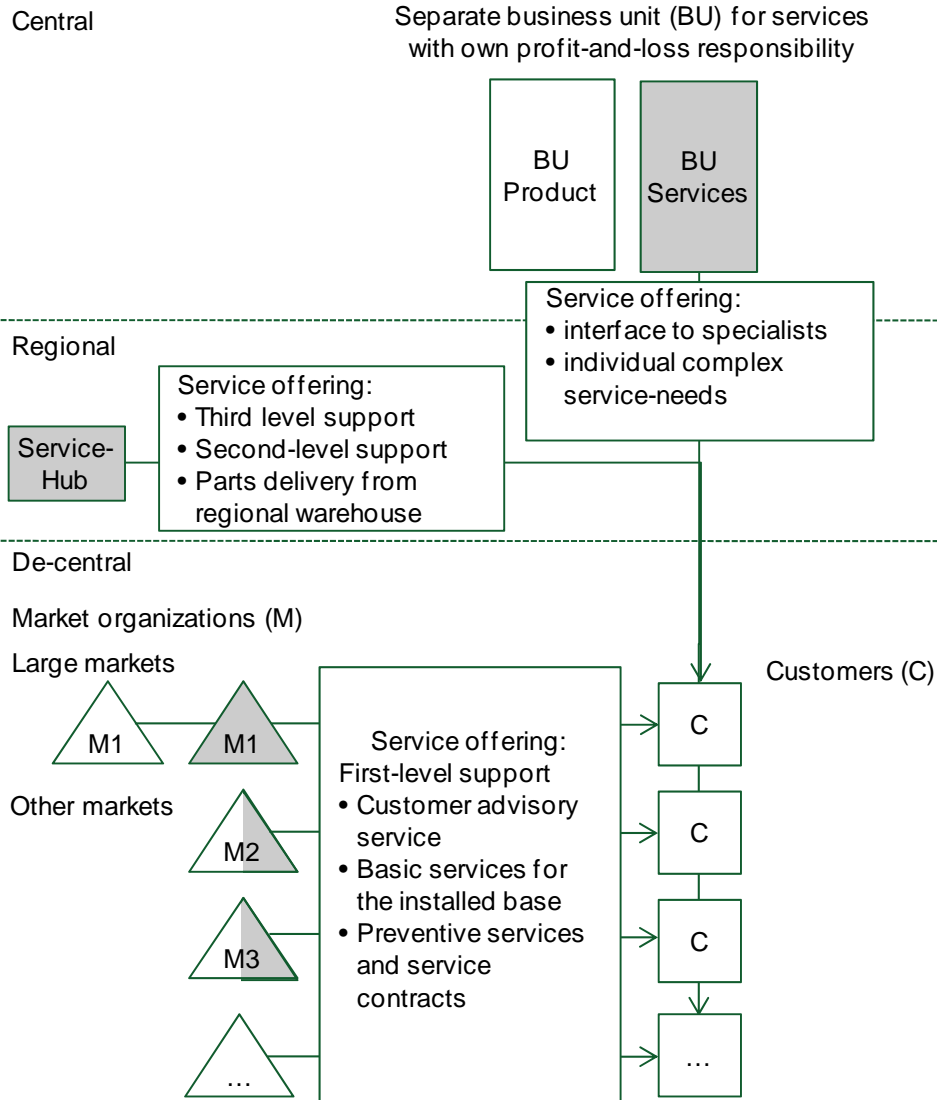


# Separated and polycentric global service structure



# Separated and geocentric global service organization

## Configuration



## Description

- Collaborative approach between both central business units (products and services) and the market organizations. To enhance the collaborative approach, the manufacturing companies reported to install regional functions.
- Regional warehouses are established
- Service hubs take-over the provision of third- and second-level support
- Market organizations concentrate on selling preventive services and service contracts.
- The service hubs facilitate the information flows between the central and local organization and promotes the exchange of experiences among the different market organizations.
- Service hubs decide about the degree of standardization of the service offer and balance between the transferability of services across market organizations versus customization for individual customers.
- Companies recruit and develop the best employees everywhere in the world for key positions across the global service network.
- The managing directors of the different market organizations and the head of the business unit services are typically part of the management team of the hub.
- In few large markets, the market organization consists of one legal entity for services and one for products.
- International Service-strategy follows the transnational approach and an identical service appearance worldwide is aspired

## By separating the service business from product functions, organizations create the basis for growth in service business

- A separate service-unit is a framework, which supports active service business
- The profit and loss responsibility gives clear evidence on the financial performance in service and product business
- Separate service organizations lead to separation on an international level as well.
- Company size is a limiting factor when separating the service from product business.

# A geocentric approach in service management facilitates global high-level service

- According to service-strategy, the management approach changes
- In polycentric and geocentric organizations the local competencies are the challenging factor
- Polycentric organizations tend to adopt local peculiarities and are run relatively autonomous from central service management
- Geocentric approach in management: global goals, central management and local knowledge and experience

# Limitations and further research

## Limitations

- Four types of organizational layout are considered, other types may not fit in this scheme
- Data is from machinery and equipment manufacturers
  - findings may not apply to other industries
- Findings are based on limited number of cases.
  - may not fit in general
  - companies may not fit into this classification due to reasons not considered
- Focus is on structural setups to support service-oriented strategies, a detailed analysis of processes and people involved has not been done

## Further Research

- Classification in terms of organizational setups:
  - other types of organizational arrangement
  - different combinations on central and local arrangements
- Integration of challenges regarding internationalization of services:
  - management approach: e.g. regiocentric approach (see Proff 2002)
  - human resource management
  - controlling

# Thank you for your attention!

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