Aalto University
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Establishing an International Service Network in Industrial Context - Capability Perspective

Marketing

Master's thesis

Sanna Nuojua

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ABSTRACT

Objectives of the study

Service-based business logic and solution business are the hot topics of marketing today. The solution business has not, however, been discussed widely yet from the perspective of offering solutions via networks. The objective of the study is to find out how an international service network is established in an industrial context. The goal is also to examine what kind of actors and roles are present in the studied context and how partners are found and identified. Furthermore, capability perspective is applied as different kind of managerial capabilities needed to establish an international service network are recognized.

Methodology

The research method of the study was a single case study as the primary goal was to understand properly the underlying dynamics related to the context. The objectives were studied in the context of an industrial case company by conducting 6 semi-structured interviews. The interviewees consisted from senior and middle management of the case company. Secondary data was collected through observation and company materials. The collected material was analysed by collecting common themes from the data and eventually, represented in the form of a case story narrative. The research was prepared from the perspective of a network hub.

Conclusions

This study offers a new perspective to solution business discussion. The research focused on explaining the dynamics related to service network creation. In the studied context, the solution business strategy was dependable on each market's specific conditions such as competition and prior knowledge from the market. Thus, network solution strategy was flexible in the studied context. Two kinds of solution partners were identified in the context, smaller solution provider outlets and larger storage-like-outlets. The identified solution partners with different kinds of roles existed in the markets next to another distribution channel, retail-dealers, who focused merely on product selling. The role of smaller solution providers is to provide a complete solution to private and professional customers while larger storage-like-outlets focus on guaranteeing the availability of products to professional builders and sometimes on providing products to smaller solution providers. Typically, the network partners were familiar to the case company from the past with a good reputation and business sense in them. The managerial capabilities identified were classified into four groups; strategic and technical capabilities, interaction and communication skills, relationship skills and business support capabilities and finally, international experience and market knowledge.

Key words

Services, solution business, networks, roles, managerial capabilities

Aalto-yliopiston kauppakorkeakoulu
Markkinoinnin ja johtamisen laitos
Markkinoinnin pro gradu –tutkielma
Sanna Nuojua

TIIVISTELMÄ

Tutkimuksen tavoitteet

Palveluihin perustuva ansaintalogiikka ja ratkaisuliiketoiminta ovat ajankohtaisia markkinoinnin tutkimuskohteita. Ratkaisuliiketoimintaa ei ole kuitenkaan tarkasteltu vielä kovinkaan laajamittaisesti kontekstissa, jossa ratkaisuja tarjotaan verkoston kautta itse tekemisen sijaan. Tämän tutkielman tavoitteena on selvittää, miten yritys rakentaa kansainvälisen palveluverkoston teollisessa kontekstissa. Tämän lisäksi tutkimuksessa vastataan kysymyksiin, kuten minkälaisia toimijoita ja rooleja verkostossa on, miten verkostopartnerit on löydetty ja tunnistetaan sekä minkälaisia kyvykkyyksiä johdolta vaaditaan kun yritys päättää tarjota palveluja verkostokumppanin kautta kansainvälisessä toimintaympäristössä.

Metodologia

Tutkielman tutkimusmenetelmäksi valittiin case study –metodi, koska tutkimuksen tavoitteena oli ymmärtää kontekstin dynamiikka perinpohjaisesti. Tutkimuskysymyksiin etsittiin vastausta tutkimalla teollista case-yritystä kuuden, keskijohdolle suunnatun, puolistrukturoidun haastattelun avulla. Lisäaineistoa kerättiin havainnoinnin ja yrityksen materiaalien avulla. Kerätty materiaali analysoitiin etsimällä yhteenkuuluvia teemoja ja esittämällä tapaus tarinan muodossa. Tutkimus toteutettiin verkostoa luovan ydinyrityksen näkökulmasta.

Johtopäätökset

Tutkielma tarjoaa uuden näkökulman ratkaisuliiketoimintakeskusteluun. Tutkielmassa keskitytään kuvaamaan palveluverkoston luomiseen liittyvää dynamiikkaa. Tutkitussa kontekstissa ratkaisuliiketoimintastrategia oli riippuvainen kunkin markkina-alueen erityispiirteistä, kuten kilpailusta ja yrityksen aikaisemmasta kokemuksesta markkinoilla. Tutkitut palveluverkostostrategiat olivat näin ollen hyvin joustavia. Tutkitusta kontekstista havaittiin kaksi erilaista ratkaisuliiketoimintapartneria; pienemmät ratkaisuntarjoajat sekä suuremmat varaston kaltaiset toimijat. Palveluntarjoajien roolit suhteessa toisiinsa olivat erilaisia ja näiden toimijoiden lisäksi markkinoilla oli läsnä myös toinen, tuotteisiin keskittynyt jakelukanava, diilerit. Pienemmät palveluntarjoajat tuottavat ratkaisun yksityisille asiakkaille ja ammattimaisille asiakkaille kun suuremmat toimipisteet keskittyvät takaamaan tuotteiden saatavuuden ammattiasiakkaille ja toimittamaan tuotteita joskus myös pienemmille ratkaisuntarjoajille. Verkostokumppanit olivat case-yritykselle jo entuudestaan tuttuja ja heillä oli hyvä maine sekä kokemusta liiketoiminnasta. Kyvykkyydet, joita verkostoituvan yrityksen johdolla tulisi olla, jaettiin tutkimuksessa neljään ryhmään: strategisiin ja teknisiin kyvykkyyksiin, vuorovaikutuskyvykkyyksiin, partnerisuhteen luomis- ja hallintakyvykkyyksiin sekä kansainvälisen kokemuksen mukanaan tuomiin kyvykkyyksiin.

Avainsanat

Palvelu, ratkaisuliiketoiminta, verkostot, roolit, johdon kyvykkyydet

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1 INTRODUCTION

The share of services has increased in our society during the last few years steadily and Vargo and Lusch (2004) even argue that eventually, every economy is a service economy. Today, companies are increasingly aiming at selling a solution for their customers instead of selling only a single product or one service at a time. One reason for companies' interest in services is the declined profit margin development of goods-related business (Ploetner 2008; Gebauer 2008) and commoditization of products (Matthyssens & Vandenbempt 2008). At the same time, also customers are demanding more comprehensive and distinctive solutions (Ploetner 2008). Due to discussed socio-economical development, companies are more and more willing to offer services in order to achieve better profits (Ploetner 2008). As Barrett and Weinstein (2007) argue, by offering customers value that meets the needs of customers and exceeds their expectations, a company is able to create long-term relationships through satisfied customers and thus, earn better profits due to increased sales, market share and positive company image. For this reason, the integration of services into a company's offering is a fruitful topic in the field of marketing and strategy development.

Prior research related to solution and service business has focused on investigating the dynamics related to supplier-buyer relationships (Gadde & Snehota 2000; Ulaga & Eggert 2006; van der Valk 2008), describing the strategic transfer and its implications from product-based logic into services even though the scholarly research related to the topic is still at an early stage (Tinnilä & Vepsäläinen 1995; Oliva & Kallenberg 2003; Araujo & Spring 2006; Jacob & Ulaga 2007; Gebauer 2008), introducing how solution business has evolved (Hobday et al. 2005), offering explanations on how companies are organised to provide integrated solutions (Davies et al. 2007), identifying ways of differentiating and optimizing a company's offering with non-price-based customer value elements in transition from pure product-based offerings to service-based value concepts (Matthyssens & Vandembempt 2008), and finally, on investigating the roles of a solution supplier and a customer when a company is willing to expand the role of a solution provider (Helander & Möller 2008).

The prior theory offers, thus, many explanations for the solution phenomenon and traditionally the research related to solution suppliers has approached the researched phenomenon through examining the mechanisms and dynamics of a solution provided by a single supplier (Gebauer 2008; van der Valk 2008). The prior research has paid less attention on investigating the needed network capabilities within an intentionally established network (Möller et al. 2005) and the research related to solutions and systems offered via third party remains yet to be a relatively unexamined field. Furthermore, the literature has not identified and explored how network ties can be utilised in the introduction of extra service-based value to business offerings and thus, to customers (Matthyssens & Vandembempt 2008). Because solution suppliers are usually specialists, who concentrate on acquiring core competencies by collaborating with other companies (Araujo & Spring 2005; Hobday et al. 2005), and by involving customers and suppliers in the process of creating value (Cova & Salle 2008), the network and relationship approaches of the study are highly valid.

The aim of this research is to explore *how a firm is able to establish an international service network in an industrial context* and tackle the problem associated to solutions offered within a network instead of a single company. The implications of offering solutions in a network context have not been studied broadly but some exceptions, however, are identified (Hobday et al. 2005; Davies et al. 2007; Penttinen & Palmer 2007; Matthyssens & Vandembempt 2008; Helander & Möller 2008). The goal of the study is also to unveil:

- What kind of actors and roles an international service network includes?
- How potential service partners are found and identified?
- What kind of managerial capabilities are needed in a service network building process?

The nature of the study is an inductive, exploratory single case study. The main theoretical contribution of this paper is to explain how solutions can be offered in an international context in a way, which differs from the practices described in the prior

literature as well as describe what kind of managerial capabilities are needed when providing services and solutions via third party in an industrial context.

The paper is structured in the following manner. First, a review on service-dominant logic and solution selling is provided by explaining how solution selling and networks are related. Second, methodological choices and research design are explained and justified. Third, the case company of the study is introduced and the findings of the study are discussed and detailed within a case story format and finally, the issues explored are summarized, the framework of the study presented and conclusions drawn.

2 THEORETICAL BACKGROUND

Theoretical background of the study is based on service and solution business and network theories. This chapter discusses the prior research related to service and solutions business and network theories.

2.1 Solution and service business

Although, the solution business has been described in prior research with many terms, such as *systems integrator* (Hobday et al. 2005; Davies 2003; Davies et al. 2007), *systems seller* (Davies et al. 2007) and *total solution supplier* (Helander & Möller 2008), they are nonetheless the same; the terms indicate that through service-based solution offerings companies are able to pursue increased revenue streams and profitability (Hobday et al. 2005). In this study *a solution supplier* is viewed as an industrial company that is willing to change its strategy by intentionally integrating services into parts of the overall offering and pursuing to develop its core competencies in order to design and integrate service-based total solutions (Davies 2003). Moreover, solution suppliers are usually specialists, who concentrate on acquiring core competencies by collaborating with other companies (Araujo & Spring 2005; Hobday et al. 2005). Hence, by developing and improving their offerings, solution providers are able to meet the needs of their customers superiorly (Araujo & Spring 2005). It has been emphasized that a company's capabilities for systems integration and solution selling are core capabilities of a successful organisation today (Hobday et al. 2005).

The main drivers identified in the prior literature for the implementation of solution business models have been the desire to improve declined margins, acquire steadier revenue growth and finally, respond to customers' requests for more complete offerings (Oliva & Kallenberg 2003; Penttinen & Palmer 2007). Additionally, pressures to downsize and enhance companies' flexibility are typically reasons for increased service outsourcing (Gebauer 2008). Customers' demand for complete offerings is one of the most important drivers behind service-based business models (Penttinen & Palmer 2007). Thus, solution selling is seen as a highly customer centric way of operating,

since its primary goal is to help customers to develop their own business instead of merely overcoming customers' operational challenges (Davies et al. 2007). Ford et al. (2002, p.175) go further and state that the value companies create is measured in terms of how well an offering is able to solve a customer's problem.

According to resource-based view, companies should focus on providing only certain part of the value chain; their own core capability (Penrose 1959; Achrol & Kotler 1999). At the same time, however, several companies are eager in developing and offering an individual solution for their customers either internally or by exploiting the network possibilities (Hobday et al. 2005), in which resource-based business strategy is present. Decisions of whether to prepare solutions in-house, outsource or collaborate in production and competition are fundamental for a company pursuing to offer service-based solutions (Hobday et al. 2005). Hence, through a solution based business model, companies position themselves at the level of industry value stream; with whom to collaborate and compete with.

Prior research has identified that solutions are traditionally offered through a single integrated company that performs all or majority of functions itself or through a prime contractor, who is responsible for the solution and coordinates the functionality of its outsourced processes (Hobday et al. 2005; Davies et al. 2007). After introducing two ways to structure solution business, it is stressed that the benefits of in-house production have become less attracting due to customers' request for more complex solutions. Despite of the challenges related to more complex customer needs, companies are not, however, outsourcing all of their operations but instead, integrating two discussed ways of creating solution offerings in order to gain advantages from both of them. (Davies et al. 2007).

Industrial companies have undergone a significant change in their operating logics during the last few years. Many companies have moved from offering basic products to offering solutions that contain both products and services (Cova & Salle 2008). Furthermore, the boundaries between products and services have become more and more blurred (Jacob & Ulaga 2008). Penttinen and Palmer (2007) identify two different

approaches towards enhanced offering; product and service focused path and relational path. In other words, service based strategy is compiled from bundled product and service strategies and a closer customer relationship (Penttinen & Palmer 2007). Furthermore, the type of service the company is offering defines the type of relationship companies should pursue (van der Valk 2008). The initiators of the theoretical discussion related to services and a new dominant logic of marketing were Vargo and Lusch in 2004. Service-dominant logic constitutes on a basis, where services are considered fundamental to economic change. The new view of marketing emphasizes intangible resources, the co-creation of value and relationships instead of traditional transaction-based business perspective (Vargo & Lusch 2004). In addition, the unit of analysis has moved from products to understanding the essentials of the value creation process (Jacob & Ulaga 2008). Development towards services and continuous, long-term relationships is appreciated from the perspective of companies' profitability as Ford et al. (2002, p. 7) foresee that it is highly unlikely that companies would benefit much from single transaction-based relationships.

One of the most promising principles of the new way of thinking is the customer involvement in the process of creating value and furthermore, solutions to customers (Vargo & Lusch 2004). Thereby companies' competitive edge should be based on a non-price based customer value as the commoditization of plain products is a real threat to companies and furthermore, as services and personal interactions have become the core differentiators for business relationships (Matthyssens & Vandembempt 2008). Thus, product and price should not be considered to be valid differentiators for offerings anymore (Ulaga & Eggert 2006). The service-based logic has been refined further by pinpointing that solutions arise from the co-creation process that also involves the supply network beside the discussed customer network (Cova & Salle 2008). The service-dominant logic emphasizes, in particular, the value proposition creation processes in collaborative spirit with customers (Vargo & Lusch 2004).

Van der Valk (2008) continues in her research that the pattern of interaction taking place in each context is highly dependent over the type of service offering. Furthermore, industrial organisations' performance due to the transition on service-based operating

logic depends on the proper alignment of environment, strategy and finally, organisational design (Gebauer 2008). Gebauer (2008) has identified different service strategies in his research: the research provides an explanation how companies are able to add service elements into their offerings: after-sales providers, customer support providers, outsourcing partners and development partners. Hence, the role of a service provider is different in each of the introduced service strategies.

2.2 Solutions within networks

Traditionally companies' have outsourced value chain functions, which did not belong to their core competences (Verity 1992; Jarillo 1988; Achrol & Kotler 1999). Thus, the effectiveness of a network was based precisely on the specialization process of each network actor (Jarillo 1988). Currently the scope of outsourcing has transferred to producing solutions by utilising existing network resources in order to gain marketplace advantages and moreover, the more complex and higher cost the product is, the more meaningful the utilization of external partners' core competencies becomes (Hobday et al. 2005). Network actors benefit from advantages the network offers when, for instance, transaction costs are reduced (Thorelli 1986; Möller & Svahn 2006). Prior network research has identified several reasons for companies' willingness to form network relationships (Möller et al. 2004, p. 17; Mills et al. 2004; Gunasekaran & Ngai 2004). Thereby, companies are now working together and co-creating value (Barrett & Weinstein 2007; Cova & Salle 2008) within a network and this demands tight co-operation from the network (Blankenburg Holm et al. 1999).

There are probably as many classifications and definitions for networks, as there are researchers (Achrol & Kotler 1999; Möller et al. 2004, p.10, 32; Möller & Rajala 2007; Lorenzoni & Lipparini 1999). In this study *networks*, which are also referred as nets, are seen as intentionally built long-term structures with a shared goal to gain competitive advantage (Jarillo 1988; Möller et al. 2004, p.10). The simple basis for a network is a dyadic relationship and typically, a relationship is formed between a customer and a supplier (Möller et al. 2004, p. 27). Also Anderson et al. (1994) emphasize the

importance of dyadic relationship as a platform for network collaboration, but they continue that dyadic relationships with other actors constitute the actual network itself.

Traditionally the actors within a network have performed vital value chain activities for other network actors, instead of completing every activity by themselves (Verity 1992; Jarillo 1988; Achrol & Kotler 1999). Thereby, by networking with strategically important actors, network hubs' are able to create more value to customers than producing value by themselves. Today companies are building their capabilities in order to design and integrate systems, while managing their networks of subsystem suppliers at the same time (Hobday et al. 2005). The resource-based view of organising one's business processes offers a basis for solution providers' business model through networking. Despite of the emphasis on core competencies, companies are currently moving away from their core competencies and instead, are willing and able to provide range of services either within a network or in-house divisions (Hobday et al. 2005). Altogether, two sides are always present in a solution business; what processes are performed internally and what can be produced in collaboration with external partners.

Hobday et al. (2005) stress that solutions and integrating capabilities enable companies to move selectively upstream or downstream in the marketplace. Thus, organisations basing their operating logic into services need to co-create value with their partner networks but also with their customer network members as well (Cova & Salle 2008). Furthermore, with high-volume products companies utilise their capabilities to achieve competitive advantage by exploiting upstream relationships. In parallel, with low-volume, high-cost capital goods, manufacturing firms are stressing the exploitation of downstream relationships with end customers by integrating services such as, maintenance, finance, consultancy and operations to their product offerings. In both cases the primary goal is to pursue advantages in the markets. (Hobday et al. 2005). In the best case scenario, network actors are even able to create a unique competitive advantage via solution selling, which is difficult to imitate.

Service-based approach and its inherent focus are essential for customers and relationship strategies (Vargo & Lusch, 2004). Furthermore, according to service-

dominant logic, customers define the value of a company's offering and thus, form the basis for the value creation in a firm (Vargo & Lusch 2004; Cova & Salle 2008). Thus, the discussion related to value networks (Möller et al. 2007) is worth of mentioning in the discussion. Möller and Rajala (2007) distinguish three different value network structures within their theoretical framework and each of them holds different approach on value creation. The role of value networks is to perform the highest possible value to a customer (Möller et al. 2004, p. 29) and this approach follows clearly the discussion related to service-dominant logic and solution selling.

2.2.1 Actors and network roles

Möller et al. (2004, p. 29) state that one of the characteristics defining networks are the commonly agreed network roles and actors' responsibilities within a network. Due to versatility of networks, network structure and actors' roles are various (Möller et al. 2004, p. 8). Furthermore, it has been noted that the roles of a hub firm and its partners are dependable over the structure of a network, expectations of other network actors and objectives of each actor; sometimes the management of a network is centralized and partners are requested to be highly flexible and able to adjust their operations (Möller et al. 2004, p. 60, 114-115, 226). Network *actors* are defined as organisations represented by individuals, which possess resources and perform activities and have relationships to other actors within the field (Anderson et al. 1998).

Anderson et al. (1998) define *role* as something how a focal actor operates in relation to others. The role a network actor is performing varies between different actors within a network and with different projects (Davies et al. 2007; Helander & Möller 2008) and moreover, as relationships are changing over time, the roles are, thus, dynamic too (Johansson & Mattsson 1992; Håkansson & Snehota 1995, p. 22; Anderson et al. 1998). Typically a network is managed by a specifically defined hub actor (Jarillo 1988) and one of the roles a solution provider holds is its role to plan, define operations and solve conflicts and pressures that might exist (Hobday et al. 2005). The coordination of network positions and actors' roles is, hence, a challenging task for the management of a network hub (Möller et al. 2004, p. 38).

Prior research has identified different kinds of solution providers' roles, customers' roles and service strategies, where the role of a service provider is based on service elements, which have been added on companies' offerings (Helander & Möller 2008; Gebauer 2008). The roles are identified mostly in the context of a dyadic-relationship between solution and service providers and customers. When designing offerings and positions at the markets, companies need to consider also customers' competencies in relation to their own and the type of relationship and network approach (Matthyssens & Vandembempt 2008). Decisions should not be made, however, quickly as Araujo and Spring (2006) emphasize the importance of increased amount of knowledge in the process of modifying a company's offering. The solution provider's role and customer's strategy are tightly interdependent and the supplier is able to expand the solution provider's role only when the customer's strategy matches the role the supplier is pursuing (Helander & Möller 2008). Furthermore, solution providers' roles differ commonly between customers (Helander & Möller 2000) and therefore, services are offered separately to some customer segments instead of providing a complete solution to all (Penttinen & Palmer 2007). The investment on a relationship requires always time and money (Gadde & Snehota 2000) and that is why companies need to decide on which segments to focus. Altogether, the role a solution supplier is going to play is dependent over the competencies of a customer, customer's strategy and established relationships.

2.2.2 Network partner identification

Prior research has focused on categorizing networks and identifying networks operating logics (Achrol & Kotler 1999; Möller et al. 2004), but how network partners are found and identified has not been examined widely yet. The evaluation of a suitable network partner is a difficult task and rather often the real nature of a partner becomes apparent when the partnership has already been established. If a network hub has no prior experience from partner candidates, a suggested way to evaluate the suitability of a partner is to base the assessment on partners' earlier business operations and critical features, such as partners' reputation and product portfolio. (Möller et al. 2004, p. 167-168).

As the number, structure and complexity of networks have increased rapidly during the years (Achrol & Kotler 1999), the networks have become intentionally built mechanisms, strategic networks (Möller et al. 2004, p.22). In the best case scenario, network relationships can offer companies a unique competitive advantage, which is difficult to imitate and it has been identified early on that companies' competitive advantage is an implication from firms' ability to establish and manage network relationships (Turnbull et al. 1996). Hence, companies have to pay close attention on the network partner identification and selection processes.

The first networks are often based on companies' dyadic and informal relationships instead of formal network structures (Achrol & Kotler 1999). Today companies have typically established vertical, horizontal or versatile networks with their partners. Vertical networks are created with suppliers and customers and horizontal networks with competitors and public actors. Out of this network classification, vertical networks remain to be the most popular way to create long-term relationships. (Möller et al. 2004, p. 8, 30-32). Vertical networks are stressed to maximize the profitability of network partners' functions that are dependable over one another (Achrol & Kotler 1999). Close vertical partner relationships are important to a company, because partners often provide the company a core function in the value chain or even, a complete solution to a specific need (Turnbull et al. 1996; De Man 2004). Furthermore, successful networks are based on customers' needs and thus, they create more value to the customers (Achrol & Kotler 1999).

Because networks are based on a change of network partners' activities, actors and resources (Håkansson & Snehota 1995, p. 26), the direct and indirect impacts within a network are always present in the context (Anderson et al. 1994). Therefore, due to lack of network transparency (Anderson et al. 1994; Håkansson & Snehota 1995; Turnbull et al. 1996), companies pursue to minimize network risks and create close relationships with partner companies, with whom they are familiar with earlier and from whom they have prior experience.

2.2.3 Managerial network capabilities

Although, research related to networks and their dynamics, is a popular phenomenon to be explored, managerial network capabilities have not been examined widely yet. In this research *capability* is defined as management's ability to create competitive advantage by adapting, integrating and creating internal and external organisational resources, skills and functional competencies in order to match the changing market conditions (Teece et al. 1997; Zahra et al. 2006). Due to the fact that even though network relationships are characterized typically as complicated and informal (Håkansson & Snehota 1995, p. 7-8), many networks are nowadays widely led with rather formal network relationships (Achrol & Kotler 1999). Moreover, a profitable network implies that network is coordinated and clear management models and procedures established (Möller et al. 2004, p. 65).

Despite of the limited research scope for network capability perspective, it has been identified, however, that due to differences in networks' underlying value creation logics, different network structures demand distinctive management models and capabilities (Möller & Rajala 2007). In addition, Ritter and Gemünden (2003) have examined network competencies and found out that skills, knowledge and qualifications are required from the management of a network hub in order the network to operate successfully. Furthermore, they provide a comprehensive list of network capabilities expected from the management of a network hub.

All in all, the prior studies propose several models for establishing and managing dyadic-relationships in the context of service and solution business. The research has not, however, tackled the dynamics related to solution business in a network context widely yet.

3 METHODOLOGY

This chapter presents the methodological choices of the study. Furthermore, the research context and the case company selection are discussed.

3.1 Research approach

The research approach of the study is qualitative as the main purpose of qualitative research is to create a clear description from the examined phenomenon and furthermore, to produce new information from the explored phenomenon (Eskola & Suoranta 2005, p.137). The research method chosen to tackle the research questions is an exploratory single case study due to the study's aim to form an understanding from the studied context and phenomenon (Easton 1995; Eisenhart 1989). Yin (2003, p.13-14) describes a case study as a method, which investigates a contemporary phenomenon within its real-life context and additionally, copes with technically distinctive situations in which there will be many variables of interest and of which relies on multiple sources of evidence. Quantitative research methods were left aside as they cannot capture the dynamics related to networks and their history or future due to the approaches' focus on collecting and presenting merely numerical data (Bryman & Bell 2007).

Thus, the case study method can be argued being an ideal method for focusing and examining a phenomenon in a context, where the unit of analysis is somewhat multi-dimensional. Furthermore, a question "how" leads often to the use of a case study as a research strategy (Yin 2003, p. 6, 13) and when the research question of the study pursues finding an answer on question "how", the exploratory approach within a case study method is justified. Furthermore, when the qualitative research focuses often on relatively small number of cases (Eskola & Suoranta 2005, p.18), the choice of the research method was relatively easy to make. The approach of the study can be described as an inductive, where the theory emerges and develops from the basis of explored empiric world. The research process and theory building are, however, an iterative process, where data and theory are compared continuously (Eisenhardt 1989). In addition, the case study method offers also a great deal of flexibility for a researcher.

Flexibility is needed when exploring networks and their dynamics, since relationships are always interdependent over one another (Håkansson & Snehota, 1995 p.25). Finally, the case study is considered to be the most suitable method for a research creating new management theory and when key variables and their relationships are being examined (Eisenhardt 1989). Overall, the context and the desire to understand the underlying challenges impacted heavily on the choice of a research method.

3.2 The industrial context

The context of the study is the construction industry, which is going through difficult times due to world wide recession. For instance, the volume of construction business focused on new buildings decreased 2,2 per cent in year 2008 (Tilastokeskus 2009a). Within the last quarter in 2008, the production of the construction industry in EU countries sunk 4,6 per cent in comparison to the previous year. There are significant differences, however, in the economic development of EU27-countries. Also the effects of global recession are seen in different countries in distinct times. For instance, in Poland the construction industry production increased during the last quarter in 2008 by 11 per cent and in Estonia, the production declined 16 per cent already in the third quarter 2008. (Tilastokeskus 2009b). Due to discussed challenges, one is allowed to say that long-term, profitable customer relationships play an important role in this economic situation, especially in the construction industry. Moreover, heavy competition within the construction industry, mainly due to the overcapacity of construction companies, has put pressures on the pricing of products, services and naturally, whole projects of construction companies (VTT 2009).

The case company of the research is selected due to the unique features of the company; the company is developing and establishing international service networks in different parts of Eastern and Central Europe with its carefully selected partners. Other companies undergoing similar changes currently were not identified from the field. In other words, the case company's services and solutions are provided by a third party instead of producing and offering solutions itself. Additionally, the construction industry is facing challenges due to global recession and hence, the research context

forms a fruitful platform for examining the transition from goods-based logic into service-based operating logic. Altogether, the discussed features related to the case company and industry make this an appropriate case to examine.

3.3 Data collection

The primary source of evidence in the research process was six semi-structured, in-depth interviews as interviews are able to focus directly on the topic of the research (Yin 2003, 86). The semi-structured interviews were expected to unveil different opinions and perspectives from the examined issue and therefore, the method was considered to be the most suitable for exploring solution business and networks. Furthermore, secondary data was acquired by observing a company workshop and by collecting internal company documents. According to Yin (2003, p. 93), observation can be described to be a good tool in providing additional information about the studied case.

The interview process began in the end of March 2009 and continued until the beginning of year 2010. Five interviews were conducted by interviewing four interviewees face-to-face and one over the phone in spring 2009. Six months later, in the beginning of 2010, a follow up interview was performed in order to understand the long-term changes within the case company. All interviewees belong either to the middle or senior management of the case company. Moreover, the interviewees are employees of the case company and work daily with the strategic concerns of solution selling. The titles of the interviewees were Marketing Manager, Business Development Manager, Business Unit Manager, Country Sales Director, Concept Manager and Business Development Vice President.

The different perspectives and angles of different managerial positions made the data more comprehensive. Topics addressed concerned naturally solution business, drivers for it, challenges, actors and roles within the business model and managerial capabilities required in the transition from product-based business to solution selling. The interviewees were asked partially the same subjects, which enabled data source

triangulation within this study (Yin 2003, p. 97) and data saturation (Eskola & Suoranta 2005, p.62). The interviews took approximately 60 to 90 minutes each and were digitally recorded. The interviews were held in the native language of five interviewees and this decision was made in order to increase the richness and authenticity of the acquired data; it is easier to express oneself with one's own mother tongue instead of using a foreign language (Tsang 1998). The amount of raw, transcribed text was 82 pages in total.

In addition to interviews, secondary data was acquired by participating in a company workshop and a kick-off meeting of a service-based project the case company attended. Direct non-participant observation helped the researcher to form an overall picture from the case company's strategic stage and direction. Primary and secondary data, such as sales presentations and annual reports, were also utilised in order to increase the richness of the context and case company analyses. Altogether, triangulation was achieved mainly through using multiple sources of evidence.

3.4 Data analysis

A carefully identified research design helped the researcher in the data analysing process. Furthermore, the importance of a research design is highlighted especially with a case study research method. The research design is combined from five different components: study's questions, research propositions if there are any, unit of analysis, the logic linking the data to the propositions and the criteria for interpreting the findings (Yin 2003, p. 21). The research questions the study addresses were discussed already in the beginning of the paper and due to more inductive nature of the research, propositions were not made in advance. The study's unit of analysis is a single company and particularly, one division of the case company.

The most suitable method for analysing the case study data is considered to be a special type of pattern matching: an explanation building. Explanation building technique links data into theory by analysing the case study data and building an explanation about the examined case (Yin 2003, p.120, 122). This approach was applied, because the aim of

the research is to explain the examined phenomenon and to present the data analysis in a narrative form. Furthermore, the iterative nature of the explanation technique, in which the case study evidence and theoretical propositions are compared and analysed continuously, justifies the choice of data analysis method (Yin 2003, p.120, 122).

After data collection and transcribing, common themes were identified and data was sorted before the analysis. In order to find themes relevant for the study, data was continuously compared to themes identified from the prior literature. Eskola and Suoranta (2005, p. 175) emphasize that by categorizing data into themes successfully, theory and empiric world need to interact continuously. The nature of the study follows this requirement. The categorization of raw data was performed by sorting data under discussed research questions. At first, data related to different context actors and their roles were identified. Secondly, data concerning service partner identification and selection was transferred under a common theme. Finally, managerial capabilities were identified. After transcribing, theme identification and categorization data was analysed in detail and written in the form of a case story.

3.5 Research validity and reliability

In its simplest form, qualitative study is considered to be an analysis of data presented in a written form (Eskola & Suoranta 2005, p.15). It has been argued that case studies' results cannot be generalized beyond the immediate case examined (Yin 2003, p. 37). Yin (2003, p.37), however, pinpoints that case studies rely on analytical generalization, where results of empirical work are compared to the formed theory and not to statistical generalization, of which survey research relies on. Therefore, the discussion related to quality of quantitative and qualitative research is not relevant, because the only goal worth of pursuing is to perform good research with methods matching the problem (Eskola & Suoranta 2005, p.14).

The quality of a case study is commonly evaluated by using four tests; construct validity, internal validity, external validity and reliability of the study (Yin 2003, p. 34). Often case studies have emphasized the external validity analysis at the expense of other

validity tests despite of the fact that methodology literature puts more emphasis on construct and internal validity. One must, however, notice that three validity types are always dependable over one another. Therefore, it has been argued that due to hierarchical nature of validity types, construct and internal validity form a basis for external validity and eventually, for analytical generalization. (Gibbert et al. 2008).

Construct validity refers to the establishment of right operational measures for the examined concepts (Yin 2003, p. 34) and via construct validity the quality of conceptualization is analysed (Gibbert et al. 2008). Construct validity of the research is established and increased by using multiple sources of evidence in the data collection process, creating a chain of evidence and allowing the interviewees to review the case story narrative (Yin 2003, p. 34). Altogether, construct validity is to be considered within the data collection process (Gibbert et al. 2008). In this study, construct validity is achieved by creating a chain of evidence for guidance for each step of the study. The established chain of evidence allows other researchers to come to similar conclusions as presented in this study. Furthermore, in order to increase the level of construct validity, the case story was sent back to all of the interviewees for verification after the data analysis and case story description. Through verification, inconsistencies were eliminated and increased validity achieved. To summarize, in order to achieve construct validity in the research, data triangulation, review of a case story by interviewees, chain of evidence and explanation of data collection and analysis (Gibbert et al. 2008), were utilised.

Internal validity is addressed in terms of a case story and explanation building in the study. The best case stories are described to be the ones, in which explanations, case narratives, reflect theoretically significant propositions. (Yin 2003, p. 120). Gibbert et al. (2008) emphasize that internal validity refers to the causal links between research variables and results and therefore, is connected to data analysis phase. Three measures are used commonly to enhance the internal validity; research framework, pattern matching and theory triangulation (Gibbert et al. 2008). Due to inductive nature of the study, the research framework was created only after the data collection process. Moreover, internal validity was pursued in the study's data collection phase by

identifying patterns matching on prior literature and by pursuing theoretical triangulation by using different theories as means to interpret the findings.

The *external validity* of case studies is identified to be one of the biggest barriers in conducting case studies. Critics argue that single case studies do not offer an appropriate basis for generalization. Because case study relies on analytical generalization and not on statistical generalization as surveys, surveys and case studies generalization capabilities cannot be compared and judged. Analytical generalization pursues to generalize specific results to some broader theory. One must remember, however, that external validity and analytical generalization is not automatic and theory must be tested by replicating the findings in another context. (Yin 2003, p. 37). The external validity of this study could be increased by extending the study and including multiple cases on the research. The choice of a single case study is, however, justified: single case study is typically used in order to detect the underlying focal issues (Salmi 2000). Finally, external validity was increased by explaining the case context and the reason for the case company selection in detail (Gibbert et al. 2008).

The final measure to assess the quality of the research is the study's *reliability*. The main goal is to ensure the same research procedures could be followed later by another researcher and the same research findings could be obtained. In order to succeed, the case study, the data collection and analysis procedures and the research stages need to be thoroughly documented. (Yin 2003, p. 37). The discussed approach with documented research stages has been followed in this study as well. In addition to documented and explained research stages, case study database with, for instance, used documents and interview transcripts, is available for possible later purposes, which increases the reliability of this study further (Gibbert et al. 2008).

4 RESEARCH FINDINGS

In this part of the paper the empirical findings are presented in the form of a case narrative. First, the case company of the paper is presented and the studied business unit's strategy is discussed and then, the empirical findings are described in detail.

4.1 The case company

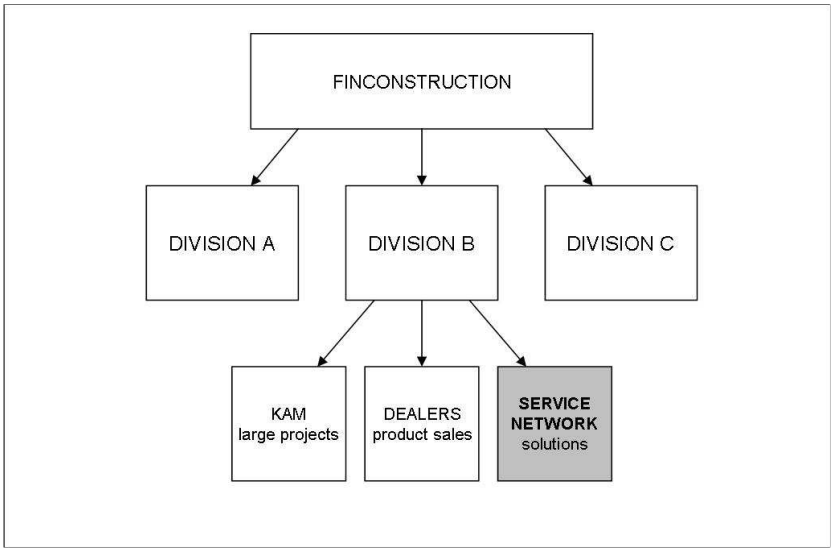
The case company of the study, FinConstruction, is a traditional Finnish industrial organisation and its headquarters is located in Finland. To address the discussed research questions, FinConstruction, which operates widely within the industrial sector providing products and integrated systems internationally (Company web pages), was selected for the case company of the study. Nowadays the traditional product manufacturer with experience of several decades pursues to increase its share at the markets and get closer to its customers by providing services and solutions and be the most desired solution provider for its customers. FinConstruction is an international player in the field and the corporation has operations in over 20 countries. The company employs nearly 12 000 people across Europe. FinConstruction's net sales totalled 1.9 Billion euros in 2009. The company concentrates on providing products and solutions mainly to Central and Eastern Europe and Scandinavia, where it holds a strong market position. (Company web pages).

The case company's operations are divided into three different divisions; *A, B* and *C*. Currently, the division A holds the strongest position out of the mentioned divisions measured in terms of its net sales within year 2009: 1.050 Billion euros. Whereas division B's net sales in 2009 were 589 Million euros and division C's 312 Million euros. (Company web pages). The division examined more closely in the research is FinConstruction B. The strategic goal of division B is to pursue growth in current market areas by introducing new innovative solutions for construction industry customers. The main competitors of the studied division are different system suppliers, such as global companies' construction divisions, small and medium sized local

companies and finally, the alternative building material suppliers. (Company web pages).

FinConstruction division B's strategy can be further separated into three different distribution channels; *key account managers*, who operate with the most profitable customer segments and handle large projects, *dealers*, who concentrate on product sales and finally, *FinConstruction service network*, whose main responsibility is to offer solutions to private customer segments. The main purpose of division B is to offer solutions to smaller B2B-customers and private customer segments. Currently, FinConstruction has internal key account managers and several established service network relationships but lacks to have enough power over its dealers.

This research focuses on examining FinConstruction -service network. Furthermore, service networks can be described as division's pilot-project inside construction business and they pursue to enhance FinConstruction's position as a solution provider. The objective of the service network is to offer high quality solutions from scratch to private customers. In addition, FinConstruction's strategic goal is to decrease the power of the dealers by introducing branded retail outlets via carefully selected partners to attractive market locations. The distinctive feature of the industrial branch, in which FinConstruction operates, is the long product lifecycles, which create its own challenge on the implementation of customer and service-based solution business model.



Picture 1. Description of the case company's strategic background.

FinConstruction is a traditional product supplier, which prior strategy has been to offer merely products to its customers. As the competition in the field became intense and products turned to be common and bulk, which every competitor was able to offer, the company begun to search an alternative strategic path to follow. Hence, industrial products became bulk with few rare differentiating possibilities and pure product sales grew to be excessively dominant, especially, in Eastern European markets, which strengthened the position of the dealers. The dealers' position strengthened as they sold numerous product suppliers' products at the same time and were able to race suppliers against each other by purchasing typically from the cheapest supplier. In addition to pricing pressures and products' mature lifecycle stage, customers began to request more complete offerings; it would be easier for customers to purchase everything - a complete solution installed - from one source instead of consuming time on finding products and services from different locations. One of the case company's goals was also to form a better understanding from the markets by gathering more accurate market information by being present at the markets. Additionally, FinConstruction's clear objective was to make the brand better known among its private customers by establishing branded outlets to the markets.

Overall, the main drivers behind FinConstruction's strategic change into services were pricing pressures, decreased market share, customers' request towards a more complete offering and need to get closer to the customers. Furthermore, basing on their customer-centric study, the company found out that the lead time for end-customer delivery was too long through its current distribution channel; the current business model proved to be too stiff and inadaptable on customers' requests. The company was selling components to the dealers, who eventually sold materials for construction companies, which FinConstruction could not control. Altogether, FinConstruction had the control over the beginning of the value chain but lacked to have a clear visibility on what was taking place at the end of the value chain. At the same time when the industrial changes occurred, the need for a change was also foreseen inside FinConstruction: the company needed to establish another and more agile way of serving its end-customers. By accomplishing customer-focused position at the markets and adding services valued by customers into the business unit's strategy, FinConstruction, was able to reduce the pricing impact of seasonal market changes on products during the year and position itself closer to customers in the value chain.

FinConstruction's strategic focus inside division B in year 2005 was to concentrate specifically on solutions and services and on the same year the foundation for FinConstruction -service concept was established. By following the common market trends, population aging and customers' wishes to purchase solutions, the company understood the need to pursue vertically closer and more visible position in the value chain, meet the needs of customers better by offering high-class services and eventually, gain competitive advantage over its main competitors. For the discussed reasons, FinConstruction initiated the development of its new business model.

4.2 Customer-centric service network

FinConstruction's strategic change towards service and solution business began already couple of years before the launch of FinConstruction -service concept. The company met, however, challenges as prior product-based ideology needed to be changed and service-based strategy to be defined: the company did not understand nor define

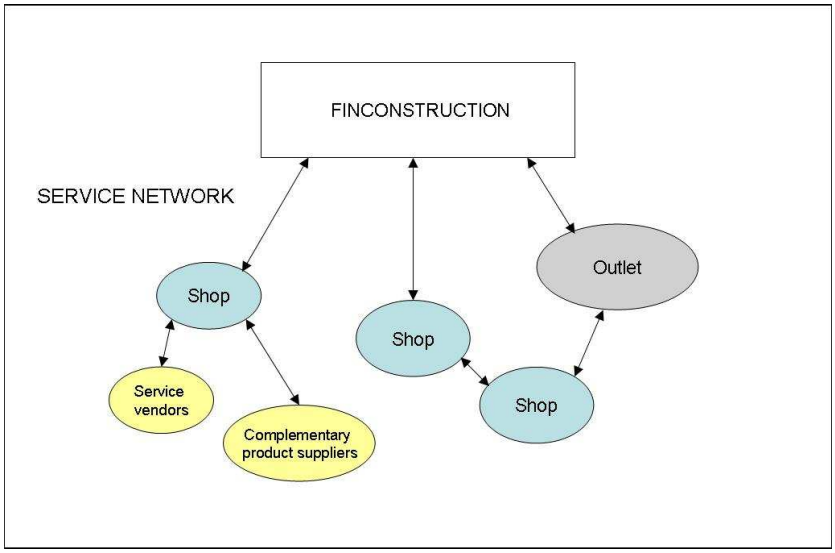
services it offered from customer's point of view. Although, the company had offered services in all of its divisions, the first services FinConstruction's division B prepared were rather simple and distant from services what we understand as services today. Therefore, FinConstruction ended up in offering services and solutions customers did not value. After the introduction of the new service concept and service network, the company obtained the essence of service business and customer-centric way of operating.

In the beginning of year 2005 the company began to prospect ways to overcome the industrial challenges. The impact of product-based strategy was the dealers' right to use FinConstruction's brand name when selling products, but in the end the company was not able to utilise its brand in the sense that it could have charged something additional from it. Nor did the company have control over the third party companies, who were using FinConstruction's products and offering solutions. FinConstruction wished to be closer to private consumers in the markets, but since the company's operational logic is linked to high costs of capital, the company pursued to share the risks and find partners instead, who would be willing to operate under FinConstruction's brand name, sell FinConstruction's products and offer services to consumers according to solution business ideology. By launching the new service concept the corporation was able to sell services and solutions to end-users within markets through networks. Furthermore, the customer-based business model seemed to be something the company could develop further, eventually into a franchising concept, which would give the company the possibility to benefit if a network actor would be using its brand name and tailored business concept.

FinConstruction is an international company and even in the beginning of the creation of the service network concept, it was clear that the business model needs to be adaptable into each target country's needs and conditions. In order to serve each customer segment successfully, FinConstruction decided to carry out a strategic move and find suitable partners through which it could serve private consumers. By finding partners, who could offer customers solutions instead of pure product selling, FinConstruction is able to share the risk with the selected entrepreneurs and tie less

equity on the business. One of the reasons why partners were and are looked to take care of private consumers is the target segments small size and the limited risks: the risks related to serving those specific target segments via network are minor. When network partners have capability and know-how to serve the customer segments, the company itself is able to concentrate on taking care of its bigger, key account customers more effectively. Altogether, when solutions are offered via network, FinConstruction, is able to serve all of its customer segments more efficiently.

The established service concept is a pilot project, where FinConstruction seeks to obtain a visible position near consumers and be in the centre of service business and customer-centric strategy. Because the project and approach to business are new, the boundaries of the new business concept are still to be searched to some extent. As it was mentioned earlier, each target markets' special conditions need to be taken into consideration and thus, FinConstruction-concept varies from country to country. For the time being, two different kinds of FinConstruction solution partners can be identified inside the concept: *Outlets* and *Shops*.



Picture 2. The relationship between the case company and its partners.

Both Shops and Outlets presented in the picture 2 above are able to serve and manage private, smaller customers but have different kinds of operating logics and target

segments. Outlets can be described as larger stores, whose main customer segment is professional customers purchasing mainly materials. Hence, Outlets' service element is to have the right kind of product portfolio available on a right time for customers' needs throughout the year. Outlets are larger service providers than Shops, which can be described as micro companies and where the number of personnel varies typically from two to five. To summarize, Outlets' operating logic is more focused on product-sales where the competitive edge is seen to be established from tailored product portfolio and product availability.

FinConstruction aims to keep the ownership of Outlets itself in the countries, on which the company has established own sales organisations. Although, the company's objective is to supervise Outlets itself, exceptions, reflecting the adaptability of the service concept due to different market area constrains and opportunities, can be identified. For instance, in the Netherlands FinConstruction Outlet is led by a third party, since the corporation does not have established sales organisation within the region and the identified partner has experience and existing customers at the market. Sometimes Outlets are established to areas by FinConstruction also due to limited regional brand awareness; it would be difficult to find a partner who would be willing to operate under FinConstruction's brand name since the brand is not known and is meaningless for the market actors. Thus, the first goal of FinConstruction is to create brand awareness by opening own FinConstruction Outlets and after that initiate the establishment of a network.

Shops, instead, are pursued to be run by discovered reliable partner network. In comparison to Outlets, Shops concentrate on designing solutions, materials and services tied up, for consumers. Therefore, it can be argued that Shops implement FinConstruction's strategic goal to move into solution business more clearly. Shops offer, thus, services to their customers by designing and installing solutions to private customers. Moreover, the specific nature of industrial business sets its own difficulties in service portfolio creation. The nature of the industry is challenging as maintenance of solutions is rarely needed and network partners find it challenging, if not even impossible, to maintain their existing customer relationships. Shops produce the service

together with the customer as an individual package, despite of usage of standard components. Overall, Shops' main service components are designing, assembly, maintenance and technical consultancy. Although, Outlets do not offer services such as Shops, the maintenance of customer relationships is, however, easier due to regularly buying professional customers' demand.

FinConstruction's goal is to establish Outlets and especially, Shops around attracting market opportunities within Europe and Russia. In order to be profitable and successful, Shops need to be set up widely within each target market. The selection of market areas begins by recognizing an attractive country, selecting a region inside the country, identifying a city with demand and eventually, finding out, who could be a potential network partner inside the discussed region. For the time being franchising model has not been introduced due to the need to concept and formalize FinConstruction's solution ideology better before moving into franchising. Therefore, the legal contracts between the partners and FinConstruction are currently based on retail and service agreements; network partners purchase FinConstruction's products and operate under the company's brand name. In the long run, the company's goal is to form franchising agreements with the partners in order to benefit from FinConstruction's strong brand name but this kind of aspiration needs still work from the case company's side.

The discussed service concept takes into account each target country's norms and habits in pricing of services and solutions as well. FinConstruction encourages to price products and services as one package, but for instance, in Baltic countries customers wish to see prices separately for products and services in a tender. The reason for this is that industrial products are rather expensive when compared to substitute products, but services instead are more cost-efficient. Thus, the benefits of a solution become evident as a more affordable price in comparison to substitutes, when products and services are priced as a complete solution. Currently, it seems to be more common that instead of pricing a solution, network partners price different components of a solution separately. Furthermore, the cost of labour varies between FinConstruction's target markets and for example, within Baltic markets the cost of labour is less expensive than in Finland. This can be argued to be one of the reasons why Baltic markets have been selected to be the

pioneering area for FinConstruction's service concept. In the countries of expensive labour hour, the launching of a comprehensive service network would have been rather risky. Altogether, FinConstruction's products are tightly priced and better margins are achieved from services and complementary goods.

4.2.1 Network actors and roles

The main actors within the examined service network are *FinConstruction*, *Shops* and *Outlets*. FinConstruction, naturally, sets the underlying norms and guidelines for its network partners and thus, can be described as the main hub in the context. In addition to Shops and Outlets, another distribution channel is present in the context; *dealers*, who are vending to some extent to same customer segments, professional customers and private consumers, as FinConstruction Outlets and Shops. The idea for FinConstruction's service-based business model was discovered and developed further from benchmarking competitor's operating logic in Estonia. Currently competition is, however, rather limited for small companies offering substitute solutions for private customers and none of FinConstruction's main *competitors* have invested heavily in service-based business model development. Some of the bigger dealers may have their own service networks along product sales, but for the time being this seems to be rare as the dealers are more focused on pure product selling. These kinds of arguments are justifying the existence of Shops and Outlets next to the dealers' distribution channel.

Network partners' roles

FinConstruction Shops and Outlets contain different roles in comparison to each other. The main function of Outlet is to operate as a larger storage and guarantee the availability of right products to professional customers' needs. Additionally, Outlets' role is occasionally to distribute materials to Shops' smaller consignment stocks. Consequently, Outlets have a role to operate as a dealer for Shops especially within markets, where FinConstruction does not have its own factory close. Thus, partner Outlets are established to countries, where FinConstruction does not have its own sales organisation or factory nearby. Outlets' role can be argued to be to maintain established customer relationships as well. For Outlets the maintenance of customer relationships is

easier than with Shops due to professional buyers' continuous need to purchase products.

Shops represent FinConstruction's service-based philosophy maybe better than Outlets. Shops are micro companies, which offer solutions for private customers from scratch. Shops' role is, hence, to offer services such as planning, installation, consultancy and various post-services. In addition to this, Shops have a role to provide pure materials for small service companies from their own smaller stock. Hence, besides vending solutions to the customers, Shops sell products and services separately as well. All products with complementary materials are purchased directly from FinConstruction. Thus, Shops have their own, small consignment stock to guarantee the availability of materials all the time. Altogether, Shops' role is to purchase products from the hub of the network and package services to solutions for their customers. Solutions are prepared under FinConstruction's brand name and thus, Shops and Outlets are the representatives of FinConstruction and make the company's brand visible in the markets. Overall, Shops' objective is to make the purchasing easier for a customer in comparison to occasions, where services would be acquired from elsewhere.

The underlying purpose of FinConstruction service network is to bring FinConstruction's brand name more visible to the end-users. Shops' role to maintain established customer relationships is more challenging than it is with Outlets. Shops prepare long-lasting solutions for customers and therefore, network partners need to invent other innovative approaches to maintain the existing relationships. For instance, the connection between various maintenance services and extended guarantee for solutions is discussed within the company and the network partners. As FinConstruction's solutions are not technical devices, which are worn out and used in every day life, maintenance services are difficult to justify. By increasing the time of guarantee, if customers are agreeing to purchase maintenance services every once in a while, network partners could tie customers closer to themselves and thus, maintain the current customer relationships in the markets.

As Shops and Outlets are positioned and located within a market in a way that no competition between entrepreneurs takes place, solution providers collaborate with each other and even generate business to other entrepreneurs. For instance, Estonian Shop-partners may contact one another and request help from another solution provider in order to complete a large project or generate business to the other partner if their own resources are not enough to meet the current customer demand. Moreover, entrepreneurs collaborate and share information with each other regularly. Therefore, network partners' collaboration is highly based on trust and open dialog.

Today FinConstruction -service providers have freedom in some extent to form their own networks inside the target market. Despite of the fact that Shops and Outlets are committed to sell only FinConstruction's products, FinConstruction has given its partners' freedom to sell complementary products to their customers as well in order to adapt their operations to each markets' particular customer needs and adjust their product portfolio. In addition, Shops buy occasionally services from other companies having their own service networks inside the existing FinConstruction service network.

Role of the network creator

The launch of FinConstruction service network took place inside Baltic countries and today most of the Shops and Outlets are located within Baltic region, 16 of those in Estonia. Thus, due to the international nature of the service concept, the network hub's roles within an international service network are various.

Besides supplying products to FinConstruction partners, the most important role of the parent company is to control and coordinate the operations between the markets. As discussed earlier, each target market has its own network strategy, for instance due to competition, mix of distribution channel strategies and experience from the markets. The main role of FinConstruction is to lead and coordinate the network, offer general guidelines and service standards, set goals and support solution suppliers in their operations. Furthermore, the case company's goal is to make sure the set objectives are met by the partners and that network becomes profitable; partners should not be left alone. Thus, it became apparent quite soon in the research that FinConstruction's

existence inside each market area, where service network is or will be established, is needed. Moreover, the parent company has to dedicate resources in order to consult and coordinate the network by nominating a business owner to each network destination. Naturally, FinConstruction's role is also to focus on service development work and innovate ways to improve the service concept.

Despite of the fact that FinConstruction reduces some of its own risks by offering solutions within a network, new risks arise. In order to protect the brand name, FinConstruction supervises its partners carefully and in the future the objective is to control networks even more closely by operating as a middle man and steering the networking possibilities of the network partners. FinConstruction's primary interest is to reduce the risks within the network and control the network more tightly and as an example from this, for instance in Estonia, all Shop outlets are rented by the corporation. Thus, in case of difficulties the company is able to change the network partner, because facilities and tools are owned or rented by the parent company. Incidents, where the entrepreneurs were let go and changed to new ones due to partners' undesirable behaviour, have emerged.

Although, FinConstruction controls its partners tightly, it also offers benefits to them in terms of a familiar brand name, business guidelines, continuous training, marketing materials, start-up stock and tools and mental support. In the beginning of a new Shop or Outlet introduction, FinConstruction's role is more supportive. The supportive phase usually lasts approximately three years and it contains a start-up package with general business guidelines, marketing materials and tools. Gradually, when contracts are renewed, the financial support reduces and network partners are expected to be financially more independent. For instance, in the beginning of the contract FinConstruction usually pays a part of the partners' rents in order to help the partners to gain a solid position in the markets. Eventually, FinConstruction's financial support reduces and support is dependable on partners' turnover and profits. The better the profit and turnover, the larger FinConstruction's support is. Even though, the financial benefits are declined over the years, non-financial support, however, remains and becomes more important.

FinConstruction's role to offer non-financial benefits is one of the most important issues within the network creation and management processes. FinConstruction organizes regular meetings for its partners, where peer support and open dialog are present: made mistakes and best cases are discussed inside a group and market information is shared informally. The role of trust and open dialog are emphasized at FinConstruction's side in the network creation and management process and information sharing as no written contracts, regarding market information reporting, are currently deployed between the corporation and the network partners. The future goal of FinConstruction is to extend Shops' role to direction, where information is distributed to the parent company in a more formal manner than today and tacit knowledge is changed and spread in meetings with FinConstruction and its partners.

One of the main questions remains why an entrepreneur should become a part of FinConstruction's network and commit himself into the corporation as entrepreneurs naturally face risks when they commit themselves into FinConstruction with legal contracts. Ultimately, the question is whether the benefits the network partner achieves, overcome the faced risks. The main risk for network partners is control and constrains the network hub dictates. The benefits for the partners are for instance, the well-known brand name, already discussed financial and non-financial support and detailed business model. Thus, the biggest incentive for network partners is to achieve business opportunities, better sales and profits due to FinConstruction's efforts to impact on end-customers; generate business to its partners. Furthermore, FinConstruction's role as a coordinator of the network can be seen in the company's ability to move customer relationships between partners in order to keep single Shops and Outlets and eventually, the whole network, as profitable.

4.2.2 Identification of network partners

One of the most critical issues in establishing an international service network is the identification and selection of network partners, as one of FinConstruction managers stated:

"Well, finding a good partner..that's the most difficult thing"

In order to succeed in the network creation, one needs to know what one is looking for. Therefore, the process of defining the profile of an ideal partner is important and highly appreciated.

Partner profile identification

Since the partner identification is difficult, FinConstruction has recognized ideal characteristics, which an appropriate network partner should possess and which help the company in the partner identification process. The main discovered criterion for FinConstruction's future network partner is partners' prior experience with the company. In addition, future partners are desired to have a prior experience from the industry as well. In other words, professional former customers are obtained to become entrepreneurs in the first place. If entrepreneur himself does not contain skills needed to produce solutions, the minimum requirement is that the entrepreneur has a background from a service industry and employees with right kind of professional skills. Altogether, the most wanted service network partners are former customers of the company.

Common to all network partners currently is that they all have capability to design and prepare solutions for private consumers. One reason for this is that professional partners have, in addition to capability, part of the needed tools ready from their own behalf and this forms a good basis to become a part of FinConstruction service network. Furthermore, they have existing customer relationships within the target market. By signing a long-term contract with former customers, FinConstruction purchases the existing customer relationships as well. The incentives can be either financial or non-financial. One of the most important criterion what FinConstruction expects from its partners, is their willingness to give up from vending competitors' products. Moreover, an ideal partner is willing to follow FinConstruction's instructions, for example, regarding safety and brand name and ready to commit himself into FinConstruction in the long run. Overall, FinConstruction has outsourced the solution supplying to its network members due to their better knowledge from the industry branch and capability to offer solutions for private customers than FinConstruction itself.

Like discussed, service network partners need to possess professional skills to prepare solutions but this is not enough to become a solution provider. The ideal criteria for future partners discovered in the research are partners' urge to be motivated, loyal and reliable. If partners are FinConstruction's former customers, no delays or problems in the payment transactions in the past to FinConstruction are allowed. Additionally, the corporation requires that future partners also have a solid background with a good reputation and eagerness to plan, develop and pursue business in order to grow and make the network profitable. To summarize, one could say: an ideal network partner has got business sense. Furthermore, an ideal partner would have an experience from business life in general, passion to meet customers' needs, possess customer service spirit and capability to take care of customer relationships.

Partner selection

In order to establish a service-based network, the corporation has had to engage itself into identification and selection process of service network partners. Current partners have been found from various sources but one thing remains the same; FinConstruction has prior experience from all of them. Like one of the interviewed managers put it:

"It's a good guarantee for us, when we know the person"

Currently, all of the service network partners are known affiliates, who have knowledge and skills from the industry. The partners are found by deepening existing customer relationships and identifying service companies and former sales representatives with whom the corporation has collaborated earlier. It was also discovered that it would not be a surprise if in the future some of FinConstruction's employees would become a solution provider and part of the corporation's service network. By selecting a business partner with prior work experience, FinConstruction is able to minimize the risks related to network management. With completely new business partners, risk is frequently higher due to unknown operating policies despite of the legal and verbal agreements.

Social capital between the network partners and FinConstruction plays, thus, an important role in the partner selection process. The partner selection process begins with

an analysis, where a potential target market and existing affiliates - long-term, reliable customers in most cases - located within the region are identified. Prospects' profiles are assessed and if a person with an ideal profile is found, the company pursues to enhance and deepen the relationship and offers the prospect an opportunity to become a network partner. Thus, in addition to good relationship, the future entrepreneur needs to hold a suitable profile in order to become a solution provider. One must remember, however, that the pool of existing, good customer relationships is not endless and eventually, the case company may face a situation, when it needs to cooperate with totally new partners and this is also recognized by the business unit management. But before collaboration with completely new partners, plenty of time and work is needed.

4.2.3 Managerial capabilities

Strategic change and new business model require resources and especially, managerial knowledge and capabilities in order to succeed in the process of establishing an international service network. At the same time, when FinConstruction pursues to share risks and costs with its network members, the company needs to invest in the learning process of its managers in order to understand what the change demands from the corporation and its management.

Strategic and technical capabilities

One of the biggest learning processes FinConstruction managers need to experience is the change of mentality; once product-based company becomes customer-centric with a new business strategy. People conduct the change and therefore, managers are required to learn new skills related to service-based strategy development and implementation and moreover, change their mentality to such, where the focal point of a strategy is a customer instead of a product. It might require a change of roles for some managers and even a change of organisational structures, where the right people with the right mentality are hired for the right positions. Furthermore, senior managers are expected to have capability to help the company to change its culture, form organisational structures and position employees to right roles within the organisation. Hence, managers' need to be able adapt to different roles and situations rapidly.

The corporation has put its service network franchising concept on hold for the time being, but it remains to be a future goal of the company. Therefore, managers have to understand the service-based strategy throughout, before moving in to franchising phase. Although, this is important for franchising, similar kinds of managerial skills are requested now. Thus, managers are expected to educate themselves about the business and develop new capabilities and skills related to the new business model before communicating new strategy to network partners. Other strategic and technical skills required besides adaptability of a manager and skills related to staffing are strategic planning and organizing capabilities, decision making, for instance, in terms of pricing and unified country strategies and finally, innovativeness. Furthermore, managers have to understand solutions and technical aspects related to products and services at least on a rough level in order to make strategic decisions related to established service networks.

Interaction and communication skills

Most obvious but maybe the most difficult managerial capabilities required to establish a service network are managers' ability to create, develop and conceptualise a network strategy and finally, to communicate the chosen strategy to different interest groups. Therefore, communication and negotiation skills are appreciated in order to pursue a profitable network at the same time when costs and risks within markets should be minimized.

After the strategy development process, managers implement the chosen strategy efficiently. Thus, capabilities required from the management are social skills, cross-cultural communication, interaction and marketing skills. The corporation needs to communicate the vision and sell the strategy to its branch office personnel and its network actors in a way they own the strategy and are pleased to operate according to it. The importance of vision creation and strategy implementation processes can be noticed from FinConstruction manager's favourite proverb:

"A vision without an action is a dream and an action without a vision is a nightmare"

If a vision and strategy are not communicated and put into action, the strategy development process is useless. Therefore, communication and interaction skills are stressed as crucial parts of managerial capability set.

Relationship and business support capabilities

In order to create a successful network, suitable partners need to be located. Therefore, capabilities related to relationship establishment and maintenance should be obtained. Managers with coordination and collaboration skills are more likely to succeed in the network creation process. Furthermore, as FinConstruction's service network is not the company's only distribution channel, FinConstruction managers are also required to have an ability to segment the markets and cooperate with different market actors in order to avoid conflicts with other distributing channels. Additionally, network conflicts arise and hence, conflict management capabilities will be requested.

As FinConstruction offers both financial and especially, non-financial benefits to its network partners, it can be argued that one of the case company's biggest managerial capabilities is to understand the need of business support in the network establishment and development process. The financial and non-financial benefits were discussed earlier and furthermore, the corporation's intention to dedicate resources on networks' management via business owner imply that FinConstruction's managerial strength has been built on top of an extensive business support system, which the company offers to its network partners.

FinConstruction's largest industrial service network is located within Baltic region with 33 solution providers in total. When a network expands into that size, a full-time business owner from the parent company's side is needed. The business managers report to each country's sales director, if own established sales organisation exists within the area, and each country's sales director is in charge of the development of the service networks, dealers and local sales organisation, key account managers, as well. Before introducing a business manager to manage the network, the network is required to be so large that it can cover the investment of a hired business manager. However, it is recognized that the network may not be profitable in the first years of its existence.

Business support is seen as en essential part of the corporation's efforts to develop the service concept further and thus, generate sales to its network partners. Furthermore, the company has hired a full-time Business Concept Manager in order to understand and develop the chosen business model further.

The role of FinConstruction business owner in the markets is to lead the established network and ensure partners operate as requested and implement the communicated strategy and standards and finally, meet the set objectives. Business owners are expected to obtain controlling, training and educating capabilities as FinConstruction's role in the network is to coordinate and train its network partners from business and technical point of view. Furthermore, business managers offer peer support to network partners by visiting and helping them in practical issues on a daily basis. The corporation business owners' objective is to coordinate their networks and operate as a filter between FinConstruction's management and the network partners. The business managers gather information from the network and spread strategic information to the network partners from the parent company. All in all, FinConstruction business managers' presence in the markets in order to coordinate networks' functions and make sure the concept is not scattered despite of different strategic approaches is vital for the efficiency of each network.

International experience and market knowledge

FinConstruction is an international player and therefore, what is common to all of the established networks is that each of them is its own kind – each market has its own specific features and formed structures and thus, each market needs to be analysed as its own. Each created network has its own specific structure due to competition and FinConstruction's own market experience. Hence, the company deploys country specific network strategies within each area. For instance, occasionally FinConstruction Outlets are owned by the corporation, sometimes run by a third party and in some countries Shops' service aspect is not introduced yet to customers due to heavy competition in the markets. What works at one market, might not be the best solution for the others. The distinctive features of each market require, thus, plenty of international experience and market knowledge from FinConstruction management.

Earlier FinConstruction's approach regarding international markets started from home market and product-based perspective and each market's specific conditions were not taken into account. Traditionally, the corporation has pursued to target markets, which are not dominated by the competitors but naturally, these kinds of markets are not always possible to find. Although, each country has its own features and structures, FinConstruction managers need to succeed in creating a unified image to all existing FinConstruction -service networks. Managers should identify common features from the markets, which could become standards, feasible to every market. In order to succeed in the process of establishing unified, international networks, the management has to have capability to learn from mistakes and best practises, spot opportunities and analyse the markets continuously in order to find common features, which work at each target area. Nowadays, FinConstruction management is aware of what markets are worth pursuing. Markets are analysed separately and therefore, international experience and market knowledge can be emphasized to be the case company's important managerial assets.

4.2.4 Managerial challenges

The biggest identified internal challenge in the process of establishing an industrial service network is the change in the managerial mindset. It is easier to hold on to something existing than to move on to something new: this argument is true within the studied case company. The change of a traditionally product-based company into a service-based one can be challenging due to already established mental models. Resistance to change most likely appears and hence, managing the change resistance is one of the keys to successful strategic change. Managers are required to understand how to change existing mental models in order to succeed in the strategy implementation. Moreover, due to an international nature of FinConstruction's business, managers have to have various skills, such as communication, interaction and social skills and ability to adapt their own behaviour to different contexts, to make every organisation in the markets to own the new strategy instead of only communicating the strategy from the headquarters. As one of the interviewed managers stated:

”*An ideal situation would be as such, when people would be gathered together and everybody would have an opportunity to say what he or she wants to do..And after.., consensus would be obtained and everybody would leave the room and...know that this is the way it goes (our new strategy) and would agree about it”*

The danger of brainstorming and communicating new strategy from up to bottom - without collaboration with each branch office - is that the new business model is scattered due to lack of understanding each market. In addition to international perspective, cross-functionality between FinConstruction’s divisions and functions should be present in the strategy and business model development in order to ease the transfer from product-based mental models to service-based ones. Meaning that the customer should be able to purchase one solution supplier all of the products and services he needs, instead of working with several divisions or companies.

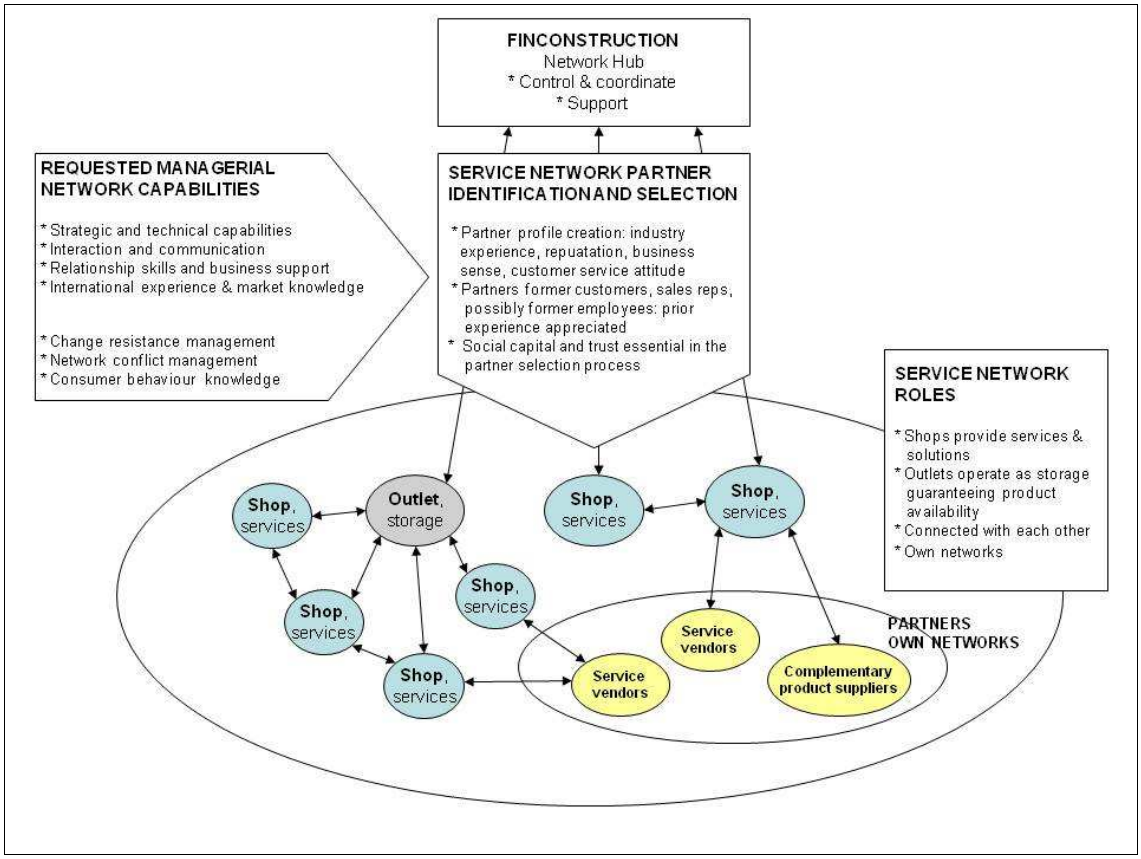
In addition to managing change resistance, one of the most obvious challenges is related to coordination between different distributing channels. As FinConstruction’s service network is not the only distribution channel, conflicts might arise when FinConstruction Shops and Outlers are located near FinConstruction’s current customers, the dealers. Therefore, managerial know-how and capability to coordinate and collaborate between different distributing channels in order to avoid conflicts is appreciated: the introduction of a new business model does not legitimate the cannibalism of the old one. Furthermore, it must become clear to all what kind of different strategies and distribution channels exist and to what kind of customer segments and projects each employee is supposed to pursue.

As FinConstruction launches a new service-based concept and business model to existing markets, there is always a danger present related to existing industrial structures and common agreed procedures. For instance, at some markets customers might be used to buying every block of the solution separately and professional customers might be used to buying products from large dealers’ premises instead of visiting small FinConstruction Shops or larger Outlets. Thus, the change in the customers’ mental models needs to be pursued sometimes as well.

All of the identified challenges present in the studied context can be further processed and turned into FinConstruction's future managerial capabilities: change resistance management, network conflict management and finally, skills related to understanding consumer behaviour. Overall, the topics should be addressed and studied further at FinConstruction.

4.2.5 Summary of the capability perspective

In the picture 3 presented below is presented the capability perspective on the process of creating an international service network.



Picture 3. Establishment of an international service network.

The case company offers services and solutions to private customer segments via smaller Shops and larger Outlets. Shops offer solutions to its target segments and

Outlets concentrate on availability of the products and sell services as add-on elements on their offering. Partner outlets have their own established networks and are in contact with one another. The role of each service outlet is decided in accordance with each market's conditions and specific features by the network hub. The case company's role is to control, coordinate and support the network and the existing actors.

In order to identify the potential partners, the network hub identified a list of characteristics, which formed an ideal partner profile and with which potential partner candidates were evaluated and selected. Typically the selected partners are already familiar actors to the case company and they have knowledge and know-how how to operate as a construction company's service provider.

Identified managerial capabilities needed to establish and manage a service network are divided into four groups: *strategic and technical capabilities, interaction and communication skills, relationship and business support skills* and finally, *international experience and market knowledge*, such as consumer behaviour. Strategic and technical capabilities are identified to be managers' skills to create a strategy and implement it, and understand the technical part of the business. After the strategy development, strategy implementation capabilities, such as communication and negotiation skills are appreciated. All in all, vision and strategy need to be communicated to network actors and therefore, strategic interactions skills are one of the most important parts of managers' capability set. Relationship skills and business support capabilities combine managers' ability to offer support to established service networks with financial and non-financial means and maintain the established relationships. Final group of capabilities is related to network hub's international capabilities and understanding. Managers' cross-market and cross-cultural knowledge is seen in various case company's network strategies inside Europe.

5 DISCUSSION

The aim of the study was to provide an answer on question how an international service network is established in an industrial context. The research provides theoretically new knowledge for solution business discussion with its approach on solution selling via partner networks and moreover, guidance for managers establishing international service networks.

5.1 Theoretical implications

Prior studies are focused on dyadic relationships, but in this study the discussion goes further and the research answers on the identified research gap. The study explains how solutions can be offered via third party, within a network and what networking demands from companies. Additionally, theoretically the research focuses on topics, which have not been discussed broadly yet – how service network partners are identified, what kind of roles they have and in particularly, what kind of managerial capabilities service network creation requires. Reasons for companies to change their strategic direction into customer-centric way of operating via solution selling is the companies' willingness to serve their customers better by extending their offerings and moving onwards in the value chain. Eventually, the objective is naturally to gain better profits through customers' satisfaction, loyalty and higher margins (Barrett & Weinstein 2007). This research addresses the solution selling from network point of view as the solutions are provided by a third party.

What is common to all network actors is that each network actor is dependable over one another and the roles of the actors change in time. Therefore, the interplay between the network hub and its partners is a challenging task as the hub must use controlling and supporting activities within a service network in a correct way. As networks are run quite often by a bigger, central organisation (Jarillo 1988), the network hub's role related to network coordination and control remains to be controversial. Due to an overly controlling network hub, the network might become ineffective (Möller & Svahn 2006). On the other hand, networks are structured due to guidance of a central company

(Jarillo 1988) and formal management procedures and models are widely recognized (Achrol & Kotler 1999).

Typically the identified service network partners are existing and already familiar companies; former customers, for instance. Furthermore, vertical networking is the most popular way to create long-term relationships (Möller et al. 2004, p. 32). It must be, however, stressed that networking should not be pursued all the time and partnership development is sensible only when the benefits exceed the costs of extended network involvement (Gadde & Snehota 2000). When network partners do not fulfil their roles according to commonly agreed objectives, relationships are ended and network partners changed. Thus, the established relationships should be assessed constantly, because occasionally the collaboration with a network partner does not produce pursued results anymore (Ford et al. 2002, p. 8). Network conflicts can turn out to be, however, useful as sometimes actors are able to identify a basis for new innovations (Perks 2000).

The coordination of network positions and actors' roles is a challenging task for the management of a network hub (Möller et al. 2004, p. 38). As the efficiency of a network is evaluated in terms of its ability to create trust and long-term relationships (Jarillo & Ricart 1987), managers are requested to contain capabilities with which to coordinate and support network partners and at the same time, create trust. One of the most important things in the service network establishment is the network hub's support to network partners. Furthermore, in case of an international service network, a business owner is needed to coordinate the network at each market in order the networks to stay as unified and implement the network hub's strategy. In order to support the network, management needs to educate themselves and overcome the resistance for change and when new managers are recruited they already have the capabilities what are requested for an establishing an international service network. If managers are not able to change their mind-set accordingly, the transition from products to services is going to be a major managerial challenge and the development of new needed managerial capabilities not successful (Oliva & Kallenber 2003). All in all, with capability check-lists managers identify future development objectives and coordinate the established networks better.

5.2 Managerial implications

Managerial implications of the study are clear as the study provides detailed information how to identify network partners and how future partners should be evaluated and what things should be considered before investing into deeper customer relationships. Furthermore, the study offers check-lists of required managerial capabilities for managers, which managers are able to utilise when recruiting new personnel in order to establish an international service network. Hence, multi-skilled managers should be found to coordinate service networks and the study offers network hubs new ideas to their recruiting processes; new employee evaluation criteria can be utilised. As strategic change is concerned, mental models are difficult to change and therefore, employment of the right kind of personnel with the appropriate capabilities and attitude is a good start in the process of creating a service network.

With the help of the check-lists the study offers, managers are able to identify and locate bottlenecks and challenges with their existing capabilities and pursue developing the missing skills in order to create a successful network. Thus, managers are able to understand what kind of skills to pursue, what to expect from their network partners, how to coordinate network relationships and how to develop relationships further.

5.3 Limitations and future research topics

Even though the purpose of the study was to understand the studied context comprehensively and a single case study was chosen for the method to examine the phenomenon, this can be identified to be the limitation of the study. With a multiple case study in a different context, wider perspectives and more information could have been achieved.

As the research topic related to service networks is an interesting and fairly unexplored phenomenon at the field, the same topic is recommended to be explored in a new context, with a multiple case study and with a longitudinal approach. Furthermore, managerial capability perspective is a field worth of examining as the prior research

related to it seems to be at an early stage. Especially, a research path, where managerial capabilities are explored in a situation, where a network hub does not have prior experience from its future partners, is meaningful to pursue.

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