

The relationship between digitalization and servitization: The role of servitization in capturing the financial potential of digitalization

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Highlights

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Digitalization without servitization capabilities can lead to negative returns, i.e., the digitalization paradox.

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Digital servitization explains profiting from digitalization requires servitization in manufacturing firms.

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Emphasizing value of servitization in driving financial performance from digitalization, a call for digital servitization.

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The results also emphasize the need for high investments in digitalization.

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Further studies are needed on the complex relationship between digitalization, servitization and company performance.

Abstract

The present study investigates the effect of the interaction between digitalization and servitization on the financial performance of manufacturing companies. We challenge the simple linear assumption between digitalization and financial performance with a sample of 131 manufacturing firms and hypothesize a nonlinear U-shaped interaction effect between

digitalization and servitization on financial performance. From low to moderate levels of digitalization, the interaction effect between digitalization and high servitization on company financial performance is negative and significant. From moderate to high levels of digitalization, the interplay between digitalization and high servitization becomes positive and significant, improving companies' financial performance. The results demonstrate the need for an effective interplay between digitalization and servitization, the digital servitization. Without this interplay, a manufacturing company may face the paradox of digitalization. For managers of manufacturing companies, the study provides insights into the complex relationship between digitalization and financial performance, emphasizing the value of servitization in driving financial performance from digitalization. Thus, the study demonstrates how manufacturing companies can become data-driven by advancing servitization.

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Keywords

Digital servitization business model
Product-service systems (PSS)
Smart manufacturing (Industry 4.0)
Digitalization capabilities
Internet of Things (IoT)
Customer relationship management (CRM)

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