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**Evidencing Productivity &
Sustainability through Servitization:**

The Role of Suppliers, Intermediaries, Customers and Competitors

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Does strategic focus on environmental sustainability favor servitization?

Rui Sousa, Danilo Soares-Silva, Jorge Julião

RESEARCH MOTIVATION

Increasingly, investors, consumers, employees, and policymakers are demanding sustainable practices from manufacturers. As a result, the focus on sustainability has become a crucial aspect of companies' strategic agendas. In recent years, environmental sustainability (ES) has emerged as a significant driver of servitization for two primary reasons.

First, the recognition of the potential of servitization to reduce the negative environmental impact of products throughout their lifecycle. For instance, servitized business models that focus on delivering product functionality rather than ownership (through sharing, renting, and leasing arrangements with customers) are expected to reduce resource consumption, enhance efficiency in use, improve product longevity and durability, and facilitate the reuse of materials. Additionally, manufacturers can offer high-value advanced services aimed directly at improving energy efficiency and reducing product emissions, leveraging the wealth of data and knowledge from their installed product base.

Second, the proliferation of new and increasingly demanding ES disclosure standards (such as the Scope 3 emissions disclosure and the Global Reporting Initiative) has intensified the pressure on manufacturing companies to report their negative or positive contributions to sustainable environmental development, not only from their own operations but also from activities across the broader supply chain (i.e., from the goods they purchase to the disposal of the products they sell). Thus, firms look at servitization as an important strategy to meet mounting environmental requirements.

Despite the important role of ES in driving servitization, there remains a dearth of both theoretical insights and empirical evidence linking a firm's focus on ES to the implementation of servitization strategies. This study theoretically articulates and empirically tests the relationship between a manufacturing firm's focus on ES and servitization.

CONTRIBUTION TO THEORY AND PRACTICE

Our study investigates how manufacturers' focus on ES influences the adoption of servitization strategies. We define ES strategic focus as the degree to which firms adopt formal policies and practices to improve ES outcomes. We examine four main areas of ES focus: i) the adoption of formal policies towards the reduction of emissions, waste and resource use; ii) the implementation of internal practices for environmental management; iii) the adoption of downstream (product-related) ES practices, such as development of green products and product recycling; and iv) adoption of upstream ES practices, namely, supplier environmental management practices.

We draw on Refinitiv's Environmental, Social, and Governance (ESG) dataset to extract qualitative data on the extent to which firms have a strategic focus on the different ES areas and whether they are engaged in servitization (0-1 variable).

Using a logistics regression model with data from 2022 and 2023, we find evidence that it is only the adoption of formal emissions reduction policies which is positively associated with the servitization adopted by manufacturing firms.

In terms of theory, the study identifies a strategic focus on emissions reduction as a key driver of servitization. Consequently, manufacturing firms appear to view servitization as beneficial to their emissions reduction policies and commitments. There is no evidence to suggest that environmental practices—whether internal, downstream, or upstream—are connected to servitization.

For policy making, this may indicate the desirability of promoting servitization initiatives (e.g., via communication, incentives, etc.) alongside emissions reduction initiatives.

KEY DISCUSSION POINTS

- Why is the focus on emissions reductions, rather than on resource use and waste reduction, positively related to a firm's propensity to servitize?
- What might be the synergies between emissions reduction policies and servitization?

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