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## Organizational Culture Re-Engineering and Service Innovativeness

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**Abstract:** *This paper addressed the relationship between organizational culture re-engineering and service innovativeness. The paper discussed literature bothering on the role of organizational culture re-engineering in the behavioural modification and adaptability of organizations in line with the innovativeness demands and development within their business and operational domains. Content from the study highlights the importance of service innovativeness, drawing on the organization's need for adaptability and survival. The imperative of a culture focused on change is even made more obvious from the growing social and economic dynamics of societies and the globalized features of most business and international market exchanges. The paper thus concludes that the re-engineering of organizational culture is a necessary action and one which aligns the organization with its service innovativeness requirements and expectations of its market and environment.*

**Keywords:** *organizational culture re-engineering, service innovativeness, adaptability, change*

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### INTRODUCTION

Every firm uses some strategies, be it explicit or implicit in competing to gain advantage of the harsh competitive business environment; and in the competitive struggle of each product and service markets, some firms are successful while others fail. Competitive advantage is reflective in superior economic performance compared to rivals (Walker, 2009). In the world of business, it is often considered that a well planned strategy brings about the success of a firm. Owing to change in time, technology, market and competition rules, firm's strategy must shift to meet the continuous change (Fleisher & Bensoussan, 2003).

Service innovation provides an effective way to create sustained competitive advantage for a company. Turning to or assuming service strategies may help organizations to overcome the problem of growth maintenance in saturated markets as well as the problem caused by the circumstance of commoditization (Reinartz & Ulaga, 2008). Firms can benefit from a service-based strategy in many ways. For example, adopting a service-based strategy can help to excel in service offerings, cost structure, delivery system, and technology (Grönroos, 2007). Additionally, policy makers as well as researchers have become increasingly intrigued by service innovation, because they have grown intensely in many industrial economies, and are expected to have a positive effect on the whole economy (Miles, 2005; Tipu, 2011).

Service is a system that supplies human needs in terms of transportation, communication, health, utilities etc. It could be described as work done for the benefit of others, in a given organisation. Since services are mainly intangible or knowledge products, a discussion on service innovation can benefit from conceptualizations of innovations stepping back from product-based definitions.

## LITERATURE REVIEW

### Organizational Culture

Every organisation has a culture that determines their competitive advantage. Culture is an integral subsystem of an organisation that allows individual employees to adapt to the environment. The concept of culture is principally stemmed from the study of ethnic and national differences in the varied disciplines of social sciences. Schein (1997) defined organisational culture as a pattern of basic assumptions- invented, discovered or developed by a given group as it learns to cope with the problems of external adaptation and internal integration. Several scholars have supported the basic key elements of organisational culture as a shared phenomenon, having visible and less visible levels, each new members of the organisation having to learn the organisation's culture and the slow level of change in culture over time.

Cameron and Quinn (2006) defines culture as having the core values, assumptions, interpretation and approaches that characterises an organisation, and identified four types of organizational culture as adhocracy, clan, market and hierarchy. In general, it has been claimed by researchers that, success-oriented organizational culture increases organizational effectiveness that creates competitive advantage. Since innovation is a competitive advantage in organisations today, management needs to establish an organizational culture that supports innovation related to change. *Adhocracy* (creative) culture with its external-oriented and dynamic structure refers to the culture of an organization in entrepreneurial, flexible, innovative and creative areas. It is a corporate culture based on the ability to adapt quickly to change conditions by employee and employers. It is characterized by flexibility, employee empowerment and an emphasis on individual initiative. *Clan* (cooperative) culture in the other hand is family-like or tribe-like types of corporate environment that emphasises consensus and commonality of goals and values. This is the most collaborative and the least competitive of four main corporate culture models. It is shaped between the dimensions of organization focus and flexibility/dynamism. *Market* (Competitive) culture occurs at the time of stability and control. Employees in this culture type are success-oriented, giving importance to personal interest rather than organizational goals and emphasizes on the concepts of training, performance and efficient. *Hierarchy* (control) culture is located between internal organization focus and stability / control dimensions. This is an organizational culture type in which leadership is effective, because it is in mechanical and bureaucratic organizations that important orders and rules with an internal focus orientation (Berrio, 2003; Cameron & Quinn, 1999; Erdem, 2007).

Services are often highly tailored products to customer needs, and consequently, the traditional product-based innovation view and the measurements it employs for assessing the value of innovations are not suitable for services and the businesses behind. Indeed, very few service firms rely on traditional research and development with regard to their innovation activities (Miles, 2008). If a firm wants to adopt a service-based strategy, it will be crucial to be able to assess the value of this type of innovation, i.e., its impact on company performance. Even though there is a mass of contributions discussing the relevance of innovation management in general, the opposite seems to be true when we consider the aspect of innovation measurement and the role of organizational culture in change expectations, there is a lack of research. This situation can be assessed as unsatisfactory as it prevents organizations from monitoring the success or failure of (service) innovation projects and, thus, disturbs the optimal allocation of their scarce resources. Additionally, it complicates obtaining a better understanding of organizational culture re-engineering and its influence on achieving or sustaining a competitive advantage, an outcome often linked to service innovativeness (Lengnick-Hall, 1992).

Similarly, in the context of organizational culture re-engineering, the conceptualization of change strongly follows the dominant logic of tangible, technological innovation preventing a necessary formation of measurements for service innovativeness (Vargo & Lusch, 2004). Given this observed need for cultural

modifications as an imperative for improved organizational functionality, this paper theoretically discusses the relationship between organizational culture re-engineering and services innovativeness.

### **Organizational Culture Reengineering**

Organizational culture is an important construct that affects both individual and organization related process and outcomes. In literature there is no consensus on definition or what constitute organizational culture (Hatch & Zilber; 2012). They further posited that cultures cannot be accurately or completely described at all. Abu-Jarad *et al.*, (2010) opined that it is defined from different perspectives. The researches on the subject of organizational culture and its effect on other organizational variables became widespread during 1980s.

According to Lund (2003) 1980s witnessed a surge in research on impact of organizational culture on employees and organizations performance. The definitions take different shapes depending on the concept they reflect, the authors' perspective approaches and emphases. Research and practical experience of the 1980s revealed two different approaches to defining organizational culture.

Culture is treated as an internal subsystem of the organization, allowing individuals to adapt to the environment while in this approach, the company has a culture, it is descriptive and it is often sufficient to make a list of some features of company personality. In the second approach, the company is treated as a culture, that is a system of knowledge that each of its members can interpret through their mind. This approach allows access to the dynamics of the social system in all its complexity, and then it leads to the concept of corporate identity (Garcia-Torres, and Hollanders, 2009). Akman and Yilmaz (2011) opined that between 1983 and 1986 most of the leading journals in management have dedicated issues to this topic and brought up definitions from leading Scholars in management. Schein, (2009) defined organizational culture as a beliefs, assumptions, and values that members of a group share about rules of conduct, leadership styles, administrative procedures, ritual and customs. Lund, (2003) defined organizational culture as the shared philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes and norms. Other Scholars also define as the human invention that creates solidarity and meaning and inspires commitment and productivity (Lund, 2003) or a system of shared values and beliefs that interacts with a company's staff, organizational structure, and control systems to produce behavioural norms within the organization (Lund, 2003).

García-Muiña, and Navas-López (2007) in their definition considered the key role of external environments as (all elements outside the boundary of the organization) to which an organization needs to adapt. Abu-Jarad *et al.*, (2010) provide a definition that most authors would agree with, they defined organizational culture as something that is holistic, historically determined (by founders or leaders), related to things anthropologists study (like rituals and symbols), socially constructed (created and preserved by the group of people who together form the organization), soft and difficult to change. Organizational culture affects various outcomes related to the employees and organizations. Saeed and Hassan, (2009) in agreement with Ahmed, (1998), noted that organizational culture affect employee behaviour, learning and development, creativity and innovation while Tseng, (2010) add knowledge management, Oparanna, (2010) and Tseng, (2010) further add performance. A definition of organizational culture which has been widely adopted by researchers dealing with this area of knowledge was formulated by culture is the entire fundamental assumptions that a given group has invented, discovered or developed while learning to solve problems of adaptation to the environment and internal integration. These assumptions have been proved by the practice to such an extent that they can be considered as relevant and true so they can be instilled in each new member of the group as a correct method of feeling and perception, the correct way of thinking about the problems of teamwork (Shan & Zhang, 2009).

Common elements can be found in all of these definitions. They highlight the assumptions, norms and values of the participants and the resulting ways of action or behaviour. It is a kind of mental community understood as the basis of the entire organizing activity and underlying the specific tasks that the organization has to complete. Organizational culture is classified in different ways. Cameron and Quinn's (2006) developed the competing values framework model and has been used in many empirical studies on organizational culture (e.g. Valencia *et al.*, 2009) and it is also used in this study. Cameron and Quinn (2006) define four types of organizational cultures; adhocracy, clan, market and hierarchy. The past three decades have been characterized by a proliferation of research and applications linking the management of change with the dynamics of organizational culture (Burriss, 2008; Dolan & Garcia, 2002; Kavanagh & Ashkanasy, 2006). Many of the endeavours in this regard have either directly or indirectly implied a significant relationship between organizational culture and organizational effectiveness (Avey *et al.*, 2008; Kavanagh & Ashkanasy, 2006; Rashid *et al.*, 2003). One study that could be highlighted in this regard is by Ahmed *et al.* (1998) which states that culture is a primary determinant of innovation towards change in the organization since positive cultural characteristics in the organization provide the organization with the necessary ingredients to innovate.

Since innovation is a competitive advantage in organizations today, it is argued that management needs to establish an organizational culture that supports innovation related to change. However, it cannot be ignored that the assumption of such a relationship as highlighted by the previous authors is also questioned by others (Ogbonna and Wilkinson, 2003). Schaffer and Thomson (1992), for example, argue that there is ample evidence to indicate that a substantial proportion of all organizational change efforts have been unsuccessful, and that protracted effort over longer periods is needed to achieve such goals. In fact, relying on cultural change as a vehicle for effective structural, procedural, or operational changes in the organization may be somewhat of an illusion (Ogbonna and Wilkinson, 2003). The reason is that organizational culture simply changes much slower than the pragmatic requirements of structural or procedural changes (Williams *et al.*, 1993).

In view of the foregoing, Buchanan (1997) states that more rapid approaches to the improvement of or changes in, organizational culture are needed. One such approach, advocated by Beer *et al.* (1990), can be labelled a "task aligned" approach to organizational change, which stands in contrast to what they refer to as "programmatic change" and which is so typical of most change efforts in organizations. According to Ogbonna and Wilkinson (2002), the latter represents documented changes in behaviour which are related more to surveillance, direct control and the threat of sanction than any transformation of managerial values, whereas task alignment focuses on changes in behaviours rather than in attitudes and beliefs, and seeks to achieve this by changing roles and responsibilities rather than through management development programs aimed at changing values (Buchanan, 1997).

A similar line is followed by Schaffer and Thomson (1992), when they differentiate between "results driven" and "activity-centred" approaches to organizational change management. They compare the latter approach to a rain dance, where the participants look good and feel good about what they are doing, but seem to have no significant impact on the performance of the organization. In view of this, these authors argue for a stronger emphasis on demonstrable results approaches, found so clearly in connotations of the by now firmly established term "re-engineering" (Davenport, 1993; Hammer & Champy, 1993).

In a succinct summary of the features and implications of re-engineering, Buchanan (1997) describes it as a results-driven approach to change where the focus is on critical or core cross-functional business processes. In order to stimulate a radical organizational rethink, the starting point for re-engineering is a blank sheet of paper. The anticipated outcomes are dramatic and rapid improvements in performance.

Thus, re-engineering seeks to dismiss the history and context of the organization and to begin again “from scratch”. It also endeavours to break down the barriers to change created by functional barriers - the silos that characterize traditional organizational charts and that indicate career ladders and personal or functional empires that individuals and groups defend in resisting change. It is interesting to note that, despite arguments against a significant link between change and culture, most of the common features of re-engineering processes identified by Hammer and Champy (1993), such as worker empowerment and job enrichment are typical organizational culture terms.

This equally applies to a number of characteristics of processes of re-engineering described by Hammer and Champy (1993): work becomes multiskilled, activities are carried out in teams, structures become flatter, and traditional management is replaced by principles of leadership. Similarly, Ogbonna and Wilkinson (2003) places greater emphasis on the negative outcomes of the re-engineered role of managers during change, particularly with regard to reduced autonomy, close monitoring and control, and resultant perceived career insecurity.

### **Service Innovativeness**

“Service innovativeness” has become a term referring to innovation taking place in the various contexts of services, including the introduction of new services or incremental improvements of existing services. Whilst service innovativeness can take place in the service sector, it does not necessarily need to. New and improved services can also be provided by non-services sectors, such as by manufacturing firms that aim at enlarging their supply portfolio with value adding services. Similarly, service innovativeness is intrinsically different from a “product”, as it usually lacks the tangible nature of product innovations. Services may be highly tailored according to the client/customer needs, and include many different stakeholders. Especially, in the knowledge-intensive sector, where service innovativeness plays an important role, the concept of service innovation is likely to differ radically from that of product innovativeness. For instance, the focus on technological advancements and the concentration of the innovation activities around the Research & Development departments does not describe service innovativeness adequately (Miles, 2008; Sundbo, 2009).

Besides the multidimensional character of service innovation, there are several ways as to how the service innovation process may take place. Toivonen and Tuominen (2009), for example, identified five service innovation processes in relation to their degree of collaboration and formality. In the sequence from less to more formal processes, these processes are: (1) internal processes without a specific project (i.e., unintentional and incremental innovations regarding existing service); (2) internal innovation projects (i.e., deliberate projects focusing on improvements of service production systems and their content); (3) innovation projects with pilot customers (i.e., new ideas are tested with a customer); (4) innovation projects tailored for a customer (i.e., the service provider strives at solving a specific customer problem); and (5) externally funded innovation projects (i.e., research-oriented collaborations focusing on the generation of new service concepts and/or platforms).

One of the reasons behind the underdeveloped understanding of service innovation may still be assigned to the dominance of the industrial and technological approach to innovation. According to Djellal and Gallouj (2010), the persistent dominance of the industrialist approach to explore innovation in services leads to a double gap: an innovation gap and a productivity gap. The authors view the innovation gap as a measure of the difference between the reality of innovation in a service economy and innovation as it is captured and measured by the traditional indicators. This observation resonates with the conclusions of Salter and Tether (2006), according to whom, one reason why services did not receive due credit for their innovativeness is related to their low level of R&D intensity and patenting. More generally, it can be argued that the traditional science and technology lenses lead to an overlook of innovation in services.

According to Djellal and Gallouj (2010) “the service economy probably innovates more than these indicators would suggest and that consequently there is hidden or invisible innovation in service economies that has, if possible, to be identified and supported by appropriate public policies.

### **Organization Culture Re-engineering and Service Innovativeness**

An element of the company’s organizational culture is an innovation-oriented culture, which consists of: innovation-oriented motivation, innovative competence, behaviour in the innovative situation, as well as the style and quality of management determining the climate for innovation. The innovation-oriented culture may be defined as the need for the maximum number of innovative ideas to appear within a certain period. Innovative culture is a way of thinking and behaving that creates, develops and establishes values and attitudes within a firm, which may in turn raise, accept and support ideas and changes involving an improvement in the functioning and efficiency of the firm, even though such changes may mean a conflict with conventional and traditional behaviour. In order to build innovative culture certain requirements must be met, involving six kinds of attitudes: the ability of managers to take risks, encourage creativity, participation of all employees in building innovation-oriented culture, responsibility of both managers and employees for their actions, allowing employees to develop their interests and use their unique talents, developing the company’s mission, which the employees will identify with; providing employees with a sense that their work is meaningful and has a positive impact on the achievement of objectives (Marcoulides, & Heck, 2013).

Organizational culture that supports innovation is also characterized by the level of education and general management, economic and social knowledge, efficient systems of communication in the organisation, ambition and the atmosphere of competition, incentive schemes, free exchange of innovative ideas proposals (ideas), a lack of arrogance and egoistic attitudes, announcing authors of success and those who assisted in this process (Mehta, & Krishnan; 2004). The characteristics of pro-innovation organizational culture include: creating a climate that would be favourable to organizational changes, developing knowledge and skills and sharing knowledge, tolerance for risk, uncertainty and novelty, implementing democratic principles of decision-making and conflict solving, supporting group activities, building an atmosphere of recognition and respect for innovators, supporting creative thinking and problem solving (Marcoulides & Heck, 2013). Excellence in leading innovation has everything to do with how that leader creates a culture where innovation and creativity thrives in every corner. The things that leaders must do to foster innovation are: focus on outcomes, develop reciprocal trust, challenge the status quo, be inspiring (Tseng, 2010).

### **CONCLUSION**

This paper has examined the relationship between organizational culture re-engineering and service innovativeness. A majority of the views expressed herein appear to support the position that changes in existing cultural forms and practices is necessary and can serve to advance the organization’s service innovativeness goals. The study through its review of literature revealed that not only do theories support organizational culture re-engineering as a basis for structural, procedural and operational change and improvement, it is also imperative in enhancing the features of the organization to match the growing changes and development within the environment of the business. Hence, in conclusion, the re-engineering of organizational culture is a necessary action and one which aligns the organization with its service innovativeness requirements and expectations of its market and environment.

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