

Product-Service Systems across Life Cycle

# Organizational transformation towards Product-Service Systems – empirical evidence in managing the behavioral transformation process

Achim Buschmeyer<sup>a,\*</sup>, Günther Schuh<sup>a</sup>, Daniel Wentzel<sup>b</sup>

<sup>a</sup>*Institute for Industrial Management (FIR) at RWTH Aachen University, Campus-Boulevard 55, 52074 Aachen, Germany*

<sup>b</sup>*Chair of Marketing in the School of Business and Economics at RWTH Aachen University, Kackertstr. 7, 52072 Aachen, Germany*

\* *Corresponding author. Tel.: +49-241-47705-237; fax: +49-241-47705-199. E-mail address: [achim.buschmeyer@fir.rwth-aachen.de](mailto:achim.buschmeyer@fir.rwth-aachen.de)*

## Abstract

One of the major challenges facing today's manufacturing industry is to differentiate from competition in a highly globalized world. As a consequence to the increasing competitive pressure, many companies transform their product centered business models towards service based business models to differentiate from competition. However, the transformation is often underestimated regarding its complexity and its management challenges to behavioral change. As a consequence lots of transformation initiatives fail. Besides difficulties in structuring the magnitude of changes in processes and structures, many transformation managers do not perceive the risk of employee resistance against changes, which is one of the key factors causing the failure of transformation. The objective of this paper is to enhance the existing body of research on manufacturer's organizational transformation towards Product-Service Systems. More detailed, the objective is to develop new knowledge to support the management during the decision-making process in the way how and by means of which instruments the change of behavior can be supported when transforming from a manufacturer to a solution.

We developed a reference framework which structures and defines the relevant dimensions of behavioral change. The identification and validation of the success factors build the second component of our research. We conducted an empirical investigation in the German manufacturing industry and got 79 data sets. Structural equation modelling was applied for the analyses and the validation of the hypotheses. By this analysis we linked management practice with employee behavior and transformational success variables. On the basis of the gained insights decisions can be made concerning the successful transformation from manufacturer to a solution-oriented service provider.

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## 1. Introduction

In order to succeed under the threat and pressure of global competition, companies have increasingly recognized the chance to transform their former product centered business models towards more customer orientated service based ones [1, 2]. The development and delivery of integrated solutions facilitating a more unique value proposition and superior market differentiation will be key capabilities for the future competitiveness of manufacturing companies [3].

The transformation process towards a solution business comes along with a fundamental change of business models, structures, processes as well as behavior [4]. A major part of the initialized transformation results cannot be achieved

because the behavioral management challenges are frequently underestimated. Especially the employee resistance to change often causes failure in transformation processes [5]. During the production era most employees participated in the business process as sales employee or production resource. The development towards an integrated solution provider results in fundamental changes in roles and tasks in the process of value generation. Thus, employees need to recognize and understand their new roles in order to satisfy the customers' requirements [4].

Findings from both, research as well as practice, indicate that a major cause for failure of change initiatives is the inadequate consideration of the employee's behavioral adjustment [6]. As a result employees struggle with adapting

new behavioral patterns and changing routines [7]. Moreover, fear and distrust are prevailing emotions towards change [8]. Hence, to achieve sustainable change the behavior and mindset of the employees needs to be altered to reduce the internal resistance against the change [9]. Those affected by the transformation must understand why the change process is necessary and how every single employee can contribute to its successful implementation. Moreover, employees need to be prepared for these new challenges [10]. Considering the tremendous relevance of employees' behavior for a successful transformation process this paper is focusing on the effect of instruments to influence behavior and the behavioral change during the transformation towards a solution-oriented service provider. The results will advance theory and practice by the development and empirical validation of new knowledge concerning the decision-making process in the way how and by means of which instruments the change of behavior can be supported when transforming from a manufacturer to a solution. Wrong decisions regarding the choice and investment in management instruments can be avoided and the overall change success can be enhanced. Therefore firstly we analyzed the relevant literature in terms of relevant elements for the integrated research model that is developed in chapter 2. Secondly chapter 3 focuses on the methodology of structural equation modeling and the design of an empirical study to validate the integrated research model and underlying hypothesis. Chapter 4 shows the results of the empirical investigation in the German manufacturing industry. Finally chapter 5 deals with an in-depth debate about the contribution of this work.

## 2. Theoretical foundation and state of research

To enhance the existing body of research and the success rate of management practice it is necessary to link instruments which influence behavior, the behavioral change process as well as the change success. Therefore in this chapter the state of research as well as the existing gap in theory will be addressed. The selection is a result of an extensive literature research. Therefore a comprehensive literature database was evaluated systematically using text mining and content analysis with respective search strings. The database includes in total approximately 1,300 sources. Primarily publications were taken into account that have been evaluated with A +, A or B within the VHB-journal-ranking. As a result of the following three subchapters it can be clearly pointed out that there is a gap in the existing literature and management practice. The research question how behavior can influence influenced to achieve the transformation towards a solution provider has not been answered yet.

### 2.1. Instruments to influence behavior

This paragraph focuses on instruments which have been identified as being relevant for the behavioral transformation process in order to influence employee behavior. The identified control instruments include communication, goal setting, personnel development and participation. Their theoretical derivation and importance for managing behavior during the transformation process from producer to solution provider are presented below.

Firstly, communication is a frequently discussed success factor for an efficient process of transformation. According to Performance Management Institute's report on organizational change (2014), 50 percent of failures in change projects are related to ineffective communications [11]. Employees resist companies' transformation as they are unsure and disoriented [12]. Furthermore, unclear or delayed communication leads to different interpretations concerning the transformation targets and their implementation. As a consequence, lacking knowledge and comprehension result in misunderstandings which cause confusion and frustration among the employees, waste resources and repress employee initiatives because of lacking knowledge and comprehension [13]. By using effective and target-oriented communication, resistance during transformation processes can be removed [14]. Communication raises the motivation of employees if the transformation project is communicated adequately and if they are informed about intermediate results during the transformation process [15]. In this case the importance of mutual or multilateral communication is particularly emphasized. Typical design possibilities for multilateral communication include workshops and team meetings [16]. Moreover, so-called change councils which are composed of representatives of the divisional management as well as the top management, help to push strategic change [17]. Thereby, obtaining feedback is an important instrument of mutual communication within the context of organizational transformation [16].

Secondly, goal setting comprise the desired future states. In the context of company transformation Hahn (1994) states that "employees are asked by means of targets (...) to perform activities using certain resources in order to achieve the intended future states" [18]. Furthermore, Evers and Körfer (2015) point out that for this process of change operatives, so called sub-targets, have to be negotiated that have to be achieved within a predefined period [19]. Goal-setting should be carried out in a way that aims are explicitly and clearly expressed, clearly measurable, accepted by the team and achievable in a certain period of time [20]. Consequently, achievable goal setting helps to keep up staff motivation over a long-lasting transformation for the simple reason that with each achieved target success can be noted [21].

A third important instrument to influence behavior are personnel development measures in order to qualify the staff for the implementation of the upcoming transformation and the establishment of new behaviors. Fundamental changes of processes, structures and employee roles require changed or partly completely new competences [22]. During the transformation process lack of training with regard to the required competences may lead to dissatisfaction of the staff and thus to resistance [23]. According to Azhari et al. (2014) it is important to give scope for further trainings. Personnel development in transformation projects is not only important on employee level but also on management level. Managers are often not qualified to successfully lead a transformation project because other competences are required in comparison to classical leadership challenges [12, 24]. Due to the complexity of transformation projects the qualification of those, who manage these projects is of particular importance

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