

NEW SERVICE DEVELOPMENT (NSD): ROLE OF CUSTOMER CONTACT EXECUTIVES

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The need for developing new services organically is well recognized. Extant review of literature reveals that various issues pertaining to NSD (New Service Development)/Service innovation like NSD initiation strategies, internal functional integration, need for simultaneous involvement of employees, evaluation of NSD and measuring the performance of new service, leadership role, role of customers, communication, factors influencing innovative co-worker behavior, etc., have been investigated.

However, in comparison to New Product Development (NPD), New Service Development (NSD) has received significantly less attention. Innovations that are initiated and implemented by individuals have been largely bypassed as most of the studies have investigated NSD at firm level or project level. This lack of attention is in spite of the recognition that employees (customer contact employees in case of service firms) can be major contributors of blockbuster new ideas.

Notwithstanding the benefits, the role of customer contact employees in the new service development stands largely under investigated. In this paper, an attempt has been made to understand the potential contributions front-line personnel can make, and empirically testable propositions are presented based on the extant review of literature

Key Words : New Service Development, Customer Contact Employees, Service Innovation

INTRODUCTION

MANY studies have viewed new service development as a generic equivalent of new product development. Authors have used the terms new product development and new service development interchangeably (John & Storey, 1997). However, as noted by Kelly & Storey (1999), in comparison to New Product Development (NPD), New Service Development (NSD) has received significantly less attention. As noted by West & Altink (1996) innovations that are initiated and implemented by individuals have been largely bypassed as most of the studies have investigated NSD at firm level or project level. This lack of attention is in spite of the recognition that employees (customer contact employees in case of service firms) can be major contributors of blockbuster new ideas (McGuire, 1973; Bowers, 1989).

Much of the initial work focused on adapting the NPD process proposed by Booz *et al.*, (1982) for services. The model proposed by them had seven generic steps namely, new product strategy, idea generation, screening and evaluation, business analysis, development, testing and commercialization.

However some of the generic stages proposed by Booz *et al.*, like product screening, concept testing, product testing and market testing were found to be of little relevance to new service development (Bowers, 1989; Davison *et al.*, 1989). The most significant contribution in developing a specific model for service development was made by Scheuing and Johnson (1989). This normative model is credited with two things namely; (a) Making a distinction between the design of the service and the delivery of the service and (b) Showing the involvement of both customer

contact employees as well as the customers in the new service development process.

However the major limitation of the above normative model is that the nature of new service ideas, job characteristics, the circumstances under which customer contact employees contribute to NSD etc., have not been clearly articulated. Scheuing & Johnson's model provides a broad overview of new service development process without getting into the finer aspects of individual constructs.

Subsequently Jeroen & Kemp (2003) developed a conceptual framework to determine the innovative behavior of co-workers in knowledge intensive services. They proposed job challenge, autonomy, strategic attention, supportive climate, external contacts, market differentiation and variation in demand as determinants of innovative behavior of co-workers.

Schneider & Bowen (1984) have argued that by including employees in the NSD process, customer needs can be better identified, likelihood to successful implementation can be enhanced, process efficiency can be enhanced and might result in employees treating customers better. Gordon et al., (1997) and Cadogan & Simintiras (1996) discuss the contributions sales personnel can make by the virtue of being closer to customers.

METHODOLOGY

The objective of the paper is to add to the existing body of knowledge to provide a better understanding of the potential contributions at individual level (primarily customer contact executives/front-line service personnel) to NSD. The focus particularly is on incremental contributions involving little or no technological innovations. An attempt has been made to understand the potential contributions front-line personnel can make, and empirically testable propositions are presented based on the extant review of literature.

For the present study, criteria specified by Barrett (2004) are used to determine the front-line executive function. Barrett has listed the following characteristic features of the customer contact executives; (a) it is people oriented (b) work is rarely routinised fully (hence non-uniform tasks) and (c) sensitive to changes in internal and external organizational environments. As suggested by West & Farr (1989), innovation at individual level is considered as "individual actions directed at generation, introduction and application of beneficial novelty".

LITERATURE REVIEW AND PROPOSITIONS

In the following sections, current literature is reviewed and new testable propositions are developed.

Innovation Strategy

Easingwood (1990) and De Jong *et al.* (2001) have underlined the need for setting clear goals for new service development. It is well known that a clearly articulated vision would act as a blueprint, channelise all resources in the required direction and more so provide direction operationally to the employees. While Jeroen & Kemp (2003) have conceptualized strategic attention to positively influence innovative behavior, they have ignored the different typologies of innovation prevalent in the literature.

Based on the overall approach to new service development, firms have been categorized as prospector, analyzer, defender and reactor by Miles & Snow (1978). Prospectors believe in being 'first' with new products, markets and technologies, analyzers are fast followers with cost efficient or innovative products, defenders are niche players who operate in a relatively stable product or service area and reactors are the firms that initiate change only after forced by competitive forces. This categorization has been used in studies carried by Griffin & Page (1996), Kelly & Storey (1999) etc.

We posit that contribution of customer contact executives to new service development would be moderated by the firm's innovation strategy.

As a corollary, we also posit that customer contact executives would play a significant role in new service development in prospector and analyzer firms and an insignificant role in defender and reactor firms.

Form of Innovation

Pim (2000) has presented a four dimensional model of service innovation, which aids in mapping and analysis of the diversity of innovation. The four dimensions are; new service concept, new client interface, new service delivery system and technological options. Gadery, Gallouj & Weinstein (1994) list *Ad-hoc innovation* as one of the forms of innovation. It primarily refers to "innovation produced during the very process of providing the service". They also list other forms of innovation like product innovation, process innovation, organizational innovation and market innovation.

If the role of customer contact executives in new service development is viewed from the prism of the above four dimensional model, it is apparent that they can play a significant role in the new service delivery system and may be some role in new client interface. Given the current job design of customer contact executives, it is less likely that they would contribute significantly in terms of new service concept as it strongly depends on organizational capabilities. This is supported by the view held by Gupta *et al.* (1990) that even when the marketing function is responsible for new service development, it has little control over associated activities like training, service testing etc. Based on the discussion in this section and the previous section on innovation strategy, we posit that:

The greatest contribution of customer contact executives in new service development would be in the form of new service delivery system in analyzer firms.

We also posit that contribution of customer contact executives to new service development in the form of ad-hoc innovations would be significantly higher than in other forms of innovation like product innovation, organizational innovation and market innovation.

Service Recovery

Four types of service failures can be found in the literature; namely, *outcome failure, process failure, exceptionally slow service and mistakes in service.* Service recovery includes all actions of the service provider to mitigate the service failure (Johnston & Hewa, 1997). Smith *et al.* (1999) distinguish between proactive recovery and reactive recovery. In the former, recovery efforts are initiated even in the absence of a customer complaint. Sara & Bodil (2004) have proposed that a systematic customer interaction following a service failure can provide information for service development. Hays, Hills & Geurs (2000) have argued that service guarantee might increase the probability of customer contacts after service failure.

However, to understand the nature of new service innovations that can result from such interactions (contacts), the typology of innovations proposed by Gadery, Gallouj & Weinstein (1994) and Pim (2000) is quite helpful. Gadery, Gallouj & Weinstein list two primary types of innovations—namely, *radical innovation and incremental innovation.* A third type of innovation coined by Foray (1993) listed by Gadery, Fallouj & Weinstein (1994) is *recombination model of innovation.* Pim (2000) talks about five patterns of

innovation namely; supplier dominated (innovations by external suppliers, implemented by service providers), client led innovation (based on customer needs), innovation within services (intra firm innovation), innovation through services (influencing the innovation process within the client firm by service provider) and paradigmatic innovations (radical innovations affecting every one in the value chain).

We posit that customer contact executives can play a significant role in client led innovation and have little or insignificant role in other patterns of innovation.

We also posit that consequent to a service failure, customer contact executives can contribute to service development effort mostly in terms of incremental innovation, as radical innovation would require greater organizational and socio-technical support.

We also posit that contribution of customer contact executives to new service development following a service failure would be significantly higher in the presence of service guarantees and significantly lower in the absence of service guarantees.

We also posit that customer contact employees participating in proactive recovery situations are more likely to contribute to new service development.

Employment Status

Based on an extensive review of literature, John & Storey (1997) found that development of new financial services has attracted significantly more attention than any other service. In a study, Rajatanavin & Speece (2003) comment that particularly in insurance industry, sales agents legally represent the insurer. In other words, sales agents represent the human face of many insurance companies. A significant number of these sales agents (the primary source of customer contact) work on a part-time basis. According to CBS¹, in 2005, about 26 per cent of all service jobs in UK and about 46 per cent of all service jobs in Netherlands were carried out by part-time employees. In the field of occupational and organizational psychology, a significant body of knowledge exists on the job attitude of part-time versus full time workers. Thorsteinson (2003), based on a meta-analytic review of job attitudes of part-time and full-time workers, found full time employees to be more involved with their jobs than part-time employees. Surprisingly this dimension has not been explored in the NSD literature.

We posit that as full-time employees are more likely to be involved with their job; their contribution would

be more significant to new service development than that of part-time employees.

Surprisingly, earlier studies (de Brentani, 1986; Easingwood, 1986) which found front line personnel's role in new service development to be significant do not seem to have considered the employment status.

Sales Force Structure & Strategy

As indicated earlier, new financial service development has attracted significant attention. World wide insurance companies follow multi channel distribution strategy. Insurance products are distributed using the following channels viz., (a) direct to customers (b) business to business channel (c) affinities (partnership with banks and other financial institutions) and (d) intermediary channels. In case of a global insurance major like Prudential U.K, intermediary channels contributed to significant amount of sales (close to 60%).²

In India, insurance products are sold primarily through personal distribution system and direct response distribution system (Sreedevi & Sridhran, 2006). Close to 88 per cent of life insurance products were sold through agents. In India, an insurance agent can be any one from a postman to the neighborhood grocer. Surprisingly sales force structure, strategy and educational background and other demographic factors of customer contact executives in a highly researched area like new service development in insurance sector has not been investigated. We feel that there is a need for further investigation of the role of the sales force structure & strategy as antecedent of new service development.

Hence we posit that sales force strategy and structure significantly influences the contribution to new service development at the individual level.

We also posit that the demographic characteristics of customer contact executives significantly influence the contribution made by the individual to new service development process.

Voluntary Employee Turnover

Annual turnover rate or attrition (or voluntary employee turnover) of customer contact executives is a common problem service firms are experiencing. In fact it has attained serious proportions in certain types of service (Vivienne, 2004). Ebbin (2000) has recorded 117 per cent median annual employee turnover in restaurant

services in the US. IT Enabled Services (ITES) is experiencing one of its worst attrition rates in the recent past. Citing New York Times, BPOIndia.org³ puts annual global attrition rate of ITES employees at 24 per cent and US at 42 per cent. With 50 per cent attrition, Indian BPOs are experiencing the worst. A recent report in a leading business newspaper put the attrition rate of middle level executives in the Indian hotel industry at 50 per cent. Intuitively, with high attrition, the firm loses for ever the tacit knowledge that customer contact employees possess about potential new service innovations.

Hence we posit that high voluntary turnover significantly contributes inversely to the new service development at individual level.

Reward Systems

Equity theorists believe that individuals evaluate the fairness of an exchange by balancing input against output (Walster *et al*, 1973). Individuals (in an organizational setup, employees) perceive a sense of inequity when they receive less for their efforts. Literature on entrepreneurship lists prior knowledge as one of the prerequisites for opportunity identification (Shepard & DeTinne, 2005). Prior knowledge is defined as "individual's distinct information about a particular subject matter that provides him with the capacity to identify certain opportunities". As noted earlier, by the virtue of close interactions with the customers, customer contact executives are able to identify gaps and also identify potential new service ideas (opportunity identification). In other words, they possess the 'prior knowledge'. Another factor which is also listed as a major contributor for opportunity identification is the potential financial reward. Financial reward is the "possible financial gain". He may, in fact, consider moving out or, if capital requirements are minimal, even start his own venture.

Hence we posit that if the financial gains (reward system) are not commensurate with the potential gains from the service innovation, the customer contact executive may not contribute to NSD in his organization.

MANAGERIAL IMPLICATIONS

As noted earlier, contributions that customer contact employees could make to new service development is sub-optimally utilized. The objective of the paper was to provide better understanding of the potential contributions at individual level to new service

development. Relevant variables are identified based on a review literature and empirically testable propositions are presented. Empirical testing of the hypothesis might result in

- a. Bridging the gap between expectations and actual contributions of customer contact employees to service development
- b. Better understanding of the relationship between innovation strategy of the firm and the role of customer contact employees in service development
- c. Throw light on service failure as antecedent of service development and the resultant typologies of innovation
- d. Better understanding of inter-linkages between channel structure & strategy and potential contributions of new service development by customer contact employees.
- e. Understanding of the inter-relationship between voluntary employee turnover, reward system and service innovation.

NOTES

1. <http://www.cbs.nl/en-GB/menu/themas/dossiers/vrouwen-en-mannen/publicities/artikelen/archief/2004/2004-1610-wm.htm> available on 13.7.2006
2. *prudential announces structure & strategic alliance for its UK insurance operations*, available at http://www.prudential.co.uk/prudential_plc/media/newsreleases/archive/2001/2001-11-02 on 07/07/2006
3. (www.bpoindia.org/research/attrition/shtml on 19.7.2006) High attrition may upset the hospitality appcart, Economic Times, June 20, 2006

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