

# Stemming Frontline Performance Losses in Service Innovation Implementation

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Frontline processes are crucial in order to stem performance losses in service organizations. Using a frontline perspective, this article outlines the key factors that contribute to performance losses in the implementation of service innovations and identifies frontline mechanisms that help stem performance losses. By offering guidelines to organizations for designing frontline processes, the authors show how service innovations can be implemented in an effective and efficient way.

*Jagdip Singh, Detelina Marinova*

Implementation is the Achilles heel of organizations seeking to extract competitive advantage and bottom line payoffs from service innovations. Good ideas often fail at the altar of execution. A 2007 McKinsey Global Survey shows that over 70% of the senior executives agreed that innovation is critical for organizational success, yet only half (35%) were confident that their organizations could successfully implement innovations without incurring performance losses that diminish their impact (McCreary 2010). Building management capabilities to diagnose and resolve implementation challenges in executing innovations is often described as the difference between a market-driven strategy and a market-driven organization.

Implementation challenges are especially prevalent when it comes to service innovations. Services typically involve interactions that occur at the organization–customer interface. Implementing innovations at this interface requires managing uncertainty caused by the heterogeneity of customers who are outside organizational control. In addition, services are usually intangible, engage customers in co-production (or co-creation), and are produced on-site (of consumption) using knowledge assets (Ordanini/Parasuraman 2011). By contrast, conventional product innovations tend to be tangible, produced without customer participation, and manufactured off-site. However, compared with expensive, long-term R&D-driven product innovation processes, service-focused innovation can be developed relatively faster and cheaper (McCreary 2010). As markets are increasingly defined by service-dominant logic, organizations need to drive superior service innovations at an increasingly faster rate to stay ahead of the competition.

*“A frontline perspective is essential for understanding service innovation implementation.”*

Little attention, thus far, has been paid to systematically understanding the unique challenges of implementing service innovations. Studies by the Center for Services Leadership at the Arizona State University show that understanding when and why service innovations fail or succeed requires placing frontline employees “squarely within the theoretical domain of innovation implementation” (Cadwallader et al. 2010). Unless frontline employees respond effectively to service innovation, neither the organization nor its customers are likely to realize the benefits of innovation. Frontline employees are the last and crucial link in the implementation of top-down service innovation processes. It is not surprising that service innovations often fail to generate expected profits when frontline jobs are typically stressful, poorly paid, downsized, outsourced and/or solely focused on executing pre-determined service routines. Our work in a range of service industries including health, insurance, and banking services demonstrates that a frontline perspective is essential for understanding service innovation implementation

### ***Dr. Jagdip Singh***

*AT&T Professor of Marketing at the Weatherhead School of Management, Case Western Reserve University, Cleveland, Ohio 44106, USA*

*E-mail: jagdip.singh@case.edu*

### ***Dr. Detelina Marinova***

*Charles Jones Russell Research Professor and Associate Professor of Marketing at the Robert J. Trulaske College of Business, University of Missouri, Columbia, Missouri 65211, USA*

*E-mail: marinovad@missouri.edu*

## Main Proposition 1

PQ innovations are associated with greater probability of frontline performance losses relative to comparable P or Q innovations (of similar investment). When successfully implemented, PQ innovations are likely to be more profitable than either P or Q innovations of comparable scale (investment).

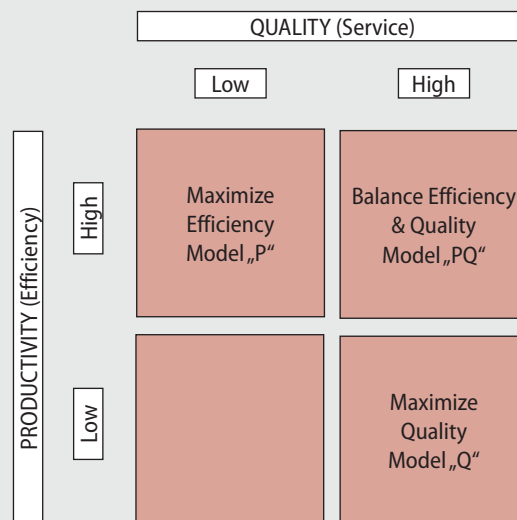
and offers unique insights for anticipating, detecting, and counteracting the performance loss that it often entails (e.g. Ye at al. 2007; Marinova et al. 2008).

## Models of Frontline Work and Challenges for Service Innovation

Recognizing different models of frontline work is the first step in developing a frontline perspective on service innovation (Mascio 2010). We have identified three prevalent models of frontline work using service productivity and quality as key dimensions (see figure 1).

- Model P is rooted in operations research and based on the principle of maximizing efficiency of service operations while minimizing variation and error. Often traced to the Six Sigma and SPC (statistical process control) approaches, Model P aims to set standards for service processes that achieve their goals. For instance, service organizations that operate call centers set standards for response speed (e.g., average time between calls, typical standard < 20 seconds), abandon rate (e.g., calls abandoned by customers, typical standard < 3%) and sign-in- time (time spent interacting with customers, typical standard > 70%). In theory, the motivation for Model P standards is often to increase response quality (e.g., increase speed, reduce waiting). In practice, evidence shows that though a focus on Model P standards tends to increase response efficiency, it often does so at the expense of service quality .

Fig. 1 Different Models of Frontline Work in Service Organizations



Note: No model is proposed for the “low productivity and low quality” quadrant as service organizations are unlikely to hold such a deficient conception of frontline work (and if they do, they are likely headed for extinction).

Source: authors' illustration

- Model Q is founded in service marketing and based on the principle of maximizing the quality of service processes and delivery while minimizing customer dissatisfaction and service recovery. Often referred to as the gap model, Model Q's distinctive aspect is the customer perspective in defining service quality and its goal to maximize customer satisfaction (Parasuraman et al. 1988). Model Q emphasizes that service quality has intangible and emotional components that are best understood as customer perceptions rather than precisely quantifiable metrics. For instance, high service quality requires frontline employees to express positive emotion and act in a way that builds trust, demonstrates promptness, reliability, and personal attention. Model Q does not address efficiency although it is expected that implementing Model Q requires increased human capital which will diminish service efficiency (Rust/Huang 2012).

The tradeoff between productivity and quality is an underlying theme of Models P and Q. Past research and current practice consistently suggest that productivity and quality goals are in conflict such that pursuing one goal comes at the cost of the other (Rust/Huang 2012). Delivering high-quality service requires attending to the changing individual customer needs and instantly adapting the service experience in response to these needs as exemplified by Ritz Carlton's credo of "creating exceptional memories". Implementation of this principle requires equipping frontline roles with autonomy to create new service guidelines on the spot as well as the freedom to create opportunities for exceptional customer experiences. In contrast, maintaining a high level of productivity invariably requires restricting the quality of handling customer requests and deviations from service guidelines. As a result, simultaneous achievement of service quality and productivity goals in interactions with customers poses significant challenges.

The objective of model PQ is to break through the service productivity and quality tradeoffs by designing and implementing service innovations that aim to: (i) increase both service productivity and quality, or (ii) increase service productivity or quality without diminishing the other. For example, in diagnosing Dell's customer service problems, Dick Hunter, head of customer services, observed that, "to become very efficient, I think we became ineffective" and subsequently increased service spending by 85% to train frontline employees to better manage productivity-quality tradeoffs. Model PQ integrates the operations and services marketing schools of thought in a single framework, guided by the dual principles of productivity and quality. Pursuing Model PQ requires flexibility in the implementation of service innovations and thoughtful engagement of frontline employees in the process (Enz 2012). PQ tradeoffs often cannot be overcome unless frontline employees improvise and experiment in adapting the innovations to ensure effective implementation (Cadwallader et al. 2010). The simultaneous pursuit of PQ goals also requires ambidextrous capabilities for successful implementation (Frei 2006; Heijden et al. 2013).

Empirical data consistently show that organizations that successfully implement PQ innovations are more profitable than those which focus on ei-

### Management Summary

Innovation implementation is critical for success but especially challenging for service organizations. Our research in a range of service industries shows that frontline resistance to change is a key to understanding performance loss in service innovation implementation. We find that type of service innovation – revenue enhancement or cost containment – matters in the degree to which it may breed frontline resistance. Managers can overcome frontline resistance through frontline participation in decision-making, although participation can sometimes increase performance losses.

## Main Proposition 2

From a frontline perspective, service innovations that emphasize cost containment are perceived to be more disruptive than those that emphasize revenue enhancement.

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ther Model P or Model Q (Mittal et al. 2005). Our own research confirms that service firms that achieve success in implementing PQ service innovations enjoy superior financial returns and customer satisfaction over time (anonymized data).

The downside of pursuing PQ service innovations, however, is an increased risk of performance losses during implementation. In a study of response speed and quality in service recovery situations, Heijden and his colleagues show that achieving both objectives (akin to PQ innovations) is time consuming and requires frontline employees to navigate multiple roles, reducing their focus on recovery tasks. Navigating these challenges is no small feat. More often than not, PQ service innovations result in unsuccessful implementation. Rayport and Jaworski's (2004) declaration that optimizing frontline interactions for PQ innovations is the "sole remaining frontier of competitive advantage" remains as true as it was almost a decade ago. Our research focuses on detecting and explaining performance losses that occur during implementation of PQ service innovations. Subsequently, we identify ways in which organizations can stem these losses to harness this elusive source of competitive advantage.

### Frontline Performance Losses During Implementation of Service Innovations

Implementing service innovations is often complicated by resistance to change by frontline employees when they do not understand or have no commitment to innovation-driven change (Sonenshein/Dholakia 2012). Frontline resistance is often confused with their perceptions of change – which we refer to as frontline sense-making (see figure 2). Frontline sense-making is caused by a disruption or disorder in a frontline employee's worldview of his/her work environment. Disruption is associated with increased uncertainty. Uncertainty may foster frontline resistance to change resulting in performance loss, as ineffective implementation by frontline employees erodes away the payoffs from service innovations.

The reason for the positive association between frontline sense-making (of change) and resistance is revealed by long-standing research on human cognition. This research indicates that individuals develop, favor and maintain situated roles – highly schematic accounts of automatic and routinized responses to work and life events. Situated roles permit the orderly development and use of necessary skills, thereby providing a sense of control and positive reinforcement.

Such situated roles reduce uncertainty in everyday work interactions. When a service innovation is initiated, it requires change in frontline actions resulting in a likely disruption of the frontline situated roles. Established routines, heuristics, and schematic knowledge structures lose their effectiveness resulting in increased frontline role uncertainty. Thus, disruption of situated roles provokes frontline resistance that invariably diminishes frontline performance.

However, disruption of situated roles also holds a promise of challenge and learning new skills for frontline employees. Dating back to Maslow's hierarchy of needs theory and Locke's goal-setting theory of motivation, it is known that overly routinized and unchanging tasks make situated roles unattractive, tedious and even demotivating. Challenge and variety can promote employee motivation for active engagement with work and skill learning that comes from a sense of accomplishment in overcoming challenges. Increased motivation and engagement with implementation of service innovations results in performance gains. Thus, frontline sense-making of change is a mixture of performance losses (due to resistance) and gains (due to motivated engagement). On the one hand, frontline employees worry that change will require them to abandon learnt skills (at which they might be pretty good). On the other hand, they see opportunities to learn new skills and advance their professional career. When worries overshadow the opportunities that frontline employees see in service innovations, performance losses outweigh performance gains and service innovation becomes ineffective. Organizations often fail to maximize the performance benefits of service innovations because they either do not detect the presence of performance loss or fail to mitigate this loss.

### Detecting Performance Losses in Service Innovation Implementation

Understanding how frontline employees make sense of service innovations and how this sense-making amplifies or lowers their resistance to it is critical to detecting and understanding performance losses during implementation (see figure 2).

*“Frontline participation is a double-edged sword – but when it works, it positions the organization to capture the elusive frontline advantage.”*

Our studies of frontline employees in service organizations have uncovered three patterns in frontline sense-making. First, the degree to which frontline sense-making involves disruption of situated roles is sensitive to the service innovation focus. When service innovations focus on revenue enhancement through quality improvement initiatives, frontline employees perceive the change as less disruptive. The dominant schematic holds true and daily practices of frontline employees in face-to-face service settings emphasize quality customer experience. Because a revenue enhancement focuses on customer service, it is consistent with frontline employees' pre-existing cognitive schemas and less likely to be perceived as highly disruptive. That is, revenue enhancement-focused innovations assimilate into frontline schemas of customer service, thereby evoking a less negative response and promoting stability. By contrast, frontline employees will perceive a service

## Main Proposition 3

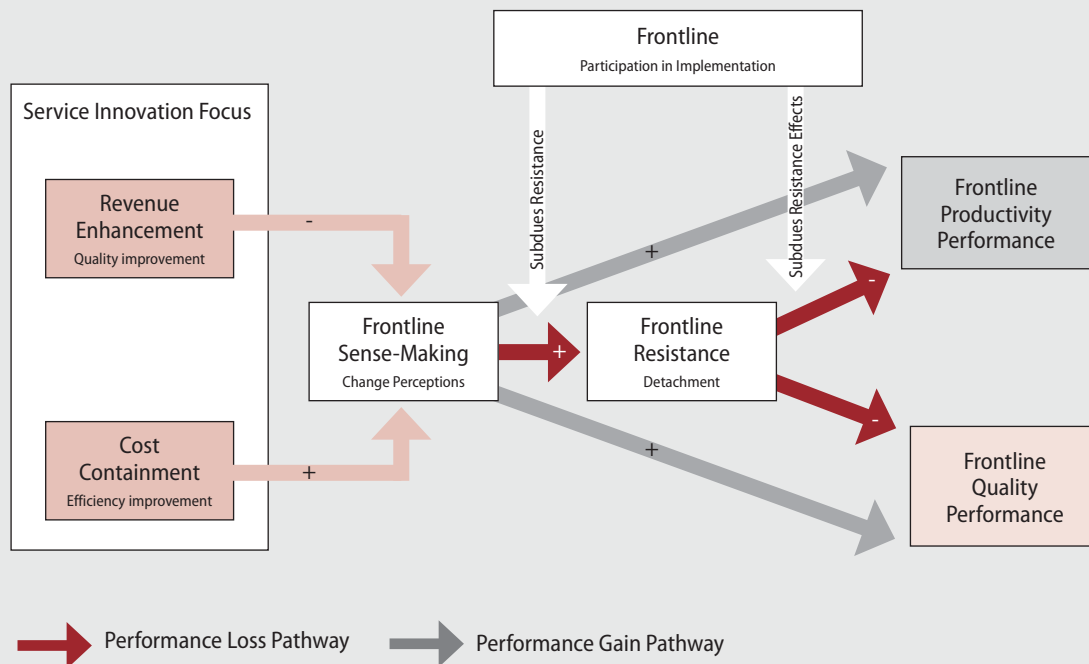
Frontline employee resistance to change is a key factor in performance losses during service innovation implementation.

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innovation focused on cost containment as a greater disruption because a dominant cost emphasis presents information and demands that are opposed to the cognitive schema of frontline employees thereby posing a contrast effect.

Second, a provocative insight from our research is that the key to understanding performance losses lies in our knowledge of the frontline sense-making → frontline resistance → performance pathway (shown as red connections in figure 2). The pathway mediated by frontline resistance allows us to isolate the performance loss effects of service innovation implementation from performance gain effects (shown as gray connections in figure 2) because only the loss effects are mediated by frontline resistance. In other words, the performance loss effects are visible outcomes of relatively invisible frontline resistance. Our work underscores the insight that frontline re-

**Fig. 2 Performance Losses and Gains during the Implementation of Service Innovations**



Note: Service innovation implementation generates both a performance loss pathway (red connections) and a performance gain pathway (gray connections). The focus of service innovations triggers frontline employees' sense-making of change and disruption of situated roles: revenue enhancement focus through quality improvement initiatives decreases frontline perceptions of change, while cost containment focus through efficiency improvement initiatives increases change perceptions. Change and disruption of situated roles diminish performance by provoking frontline resistance. However, change in itself can be motivating and can boost performance. When performance loss dominates, it lowers performance gains and service innovation implementation is ineffective. Frontline participation in innovation development and implementation can reduce both the degree to which frontlines resist change, and the negative effect of resistance to change.

Source: authors' illustration



sistance may be caused by the best of intentions. Frontline employees may resist the changes proposed from top management because they find faults with service innovation that are overlooked by management, and have different perceptions about change necessity and its consequences. When management implements changes without consulting employees, they react by withdrawal, lower willingness to engage in day-to-day job duties, and a cynical, emotionless, and uncaring attitude towards others – which we call frontline resistance. The adverse effects of frontline resistance manifest themselves in a variety of ways which are costly to the organization including diminished performance productivity and quality of frontline employees (see figure 2).

*“Simultaneous achievement of service quality and productivity goals in interactions with customers poses significant challenges.”*

### Stemming Performance Losses

Understanding the performance loss pathway allows managers to intervene and stem performance losses. One intervention we have studied extensively is employee participation during the development and implementation of service innovations. Frontline participation is known to have beneficial effects. First, it enhances frontline involvement in goal setting and decision making which facilitates a sense of procedural justice. Second, it gives a sense of control over the change process, which increases frontline goal acceptance and commitment and thus fosters positive attitudes towards service innovation. Third, it allows the expression of individual opinion, sharing of information, responding to questions, and engaging in a discourse.

As a result, frontline participation improves employees’ understanding of change and its implications that effectively weaken the link between frontline sense-making and frontline resistance in service innovation implementation (see figure 2).

Moreover, frontline participation buffers the individual employee from the negative effect of resistance by not allowing the performance to deteriorate (see figure 2). Our work points to the insight that frontline participation in decision making increases control and efficacy cognitions that, in turn, enhance employee ability and motivation to cope with disruption of situated roles and the resistance that it entails. Our research shows that mere participation boosts frontline employees’ perceptions of work control and weakens the link between resistance and performance.

### Counter-Intuitive Insights into Frontline Participation

Although most studies indicate that frontline participation invariably yields performance-positive effects, our studies reveal a counter-intuitive effect that is relevant for service innovations and so far has not been well under-

## Main Proposition 4

For revenue enhancement innovations, frontline employee participation in change decisions reduces frontline resistance.

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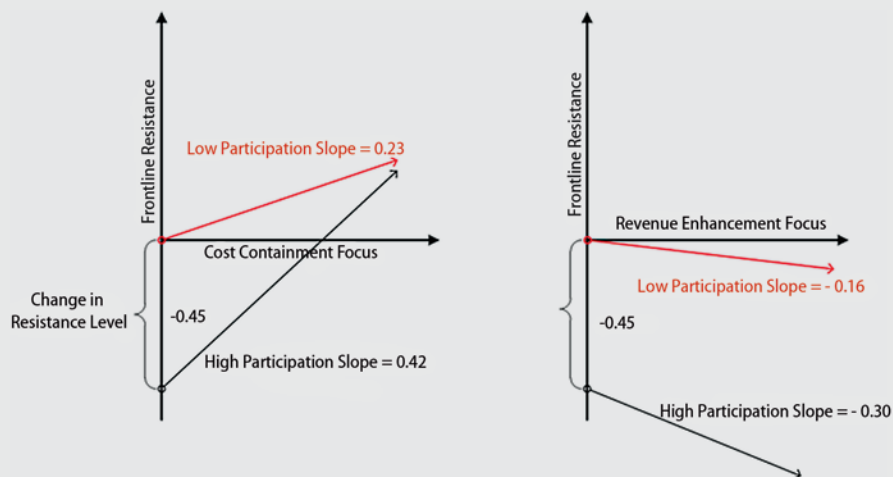
## Main Proposition 5

For cost containment innovations, frontline employee participation in change decisions enhances frontline resistance.

stood. Displayed in figure 3, our results show that when the focus of service innovation is on revenue enhancement, high levels of frontline participation reduce frontline resistance, but low levels of participation do not. In quantitative terms, high participation reduces the effect of change on frontline resistance by a factor of 2 compared to low participation, and reduces the level of resistance by a factor of .45 units. However, when the service innovation is focused on cost containment, payoffs from frontline participation are mixed. High levels of participation lower a priori resistance by a factor of .45 units, but increase the effect of change on frontline resistance by a factor of 1.8. In other words, participation makes frontline employees more (not less) susceptible to resistance when service innovations involve cost containment focus. In fact, managers would have to increase their focus on revenue enhancement by a factor of 140 percent to neutralize the frontline resistance induced by a unit increase in cost containment.

Why is this so? Our work with frontline employees in health and financial services provides clues to this counter-intuitive finding. Frontline employees in these high-touch service sectors appreciate the opportunity to participate in decisions that disrupt and redirect their situated roles. How-

**Fig. 3 How Frontline Participation Affects Frontline Resistance During Implementation of Service Innovations**



Note: Frontline participation modifies the relationship between cost containment innovations and frontline resistance (left graph), and between revenue enhancement innovations and frontline resistance (right graph). For cost containment innovations (left), frontline participation shifts the a priori level of resistance down by a factor of .45 units, but increases the effect of cost containment on frontline resistance by a factor of 1.8. In other words, participation makes frontline employees more (not less) susceptible to resistance for service innovations with cost containment focus. For revenue enhancement innovations, participation reduces the effect of revenue enhancement on frontline resistance by a factor of 2, and shifts the level of resistance down by a factor of .45 units. Organizations would have to increase their focus on revenue enhancement innovations by a factor of 140 percent to neutralize the frontline resistance induced by a unit increase in cost containment innovations.

Source: authors' illustration

ever, employee participation is full of conflicting perspectives. By and large, frontline employee perspective is rooted in model Q – they favor quality improvement efforts that enrich their roles, but resist cost containment efforts that restrict their roles. By contrast, the management perspective is often dominated by model P as they are driven to achieve efficiency gains for improving their organization's performance. Model P and Q are often controversial unless both work collaboratively to achieve model PQ solutions. Where this occurs, frontline participation enhances both the service innovation itself and its payoffs. When it does not, participation helps only when the service innovation is quality-focused but hurts when the focus of service innovation shifts to cost containment.

*“Vision without execution is hallucination.”*

*Thomas Edison*

Kaiser Permanente exemplifies the careful cultivation of frontline participation in service innovation implementation (McCreary 2010). To develop and implement a service-focused innovation aimed at reducing medication errors, Kaiser Permanente employed 70 frontline employees (nurses, physicians, pharmacists) along with patients to brainstorm together during the “deep-dive” phase of their service innovation process. They collectively generated 400 ideas, ranging from incremental to disruptive, which eventually resulted in a 5-step implementation process ensuring effective and efficient dispensing of medication. The project cost US\$ 475,000, took a year from launch to implementation in 75% of the hospitals and generated a US\$ 965,000 increase in profit (cost savings due to fewer medication errors) as well as the less visible reduction in frontline resistance to change indicated by higher frontline employee satisfaction.

No doubt, frontline participation is a double-edged sword – it is costly, time-consuming and often alters the course of service innovations designed by the top management. However, when it works, it is a sword that cuts through the Gordian knot of productivity–quality trade-offs and positions the organization to capture the elusive frontline advantage.

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## Lessons Learned

- Disruption of frontline roles during service innovation implementation diminishes performance by provoking frontline resistance. However, disruption can also be motivating to inspire creativity and yield significant performance gains.
- Effective service innovation implementation: performance gains >> performance losses.
- Organizations can achieve effective service implementation by (a) stemming performance losses, and/or (b) bolstering performance gains.
- Organizations would have to increase their focus on revenue enhancement innovations by a factor of 140 percent to neutralize the frontline resistance induced by a unit increase in cost containment innovations.

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