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The Effect of Frontline Employee Co-creation on Service Innovation: Comparison of Manufacturing and Service Industries

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Abstract

The involvement of frontline employees is critical to successful service innovation. Frontline employees often know what their customers need as well as what types of services their firms offer. Service deliver is highly dependent on the actions of frontline employees, who are the focus of the current research. However, the understanding on the influences of co-creation with frontline employees on service innovation performance is insufficient. Therefore, the research model based on service-dominant logic and empowerment perspective was developed to investigate the effect of co-creation with frontline employees on the performance of service innovation. The results drawn from a survey of 149 IT firms and 103 finance firms suggest the followings. First, the frontline employee co-creation by two-way communication can facilitate frontline employees' sentiment (i.e., motivation, commitment and satisfaction) for the implementation of new services in both the IT and financial industries. Second, for the IT industry, the frontline employees' sentiment positively affects the financial performance and non-financial performance, except for the links of motivation–financial performance and commitment–non-financial performance. For the financial industry, the frontline employees' sentiment positively affects the financial performance and non-financial performance, except for the commitment–financial performance. Third, the effects of satisfaction on financial and non-financial performance are stronger in the IT industry than the financial industry. The links of motivation–financial performance and commitment–non-financial performance are stronger in the financial industry than the IT industry. Finally, we offer some managerial and research implications for service innovation and frontline employee co-creation.

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1. Introduction

The challenge of service innovation is not only on how to design new services with innovativeness but also on how to manage and improve the process of execution (Cadwallader et al., 2010). To successfully translate innovation strategy into visible outcomes is highly dependent on the actions of the frontline employee, who is the most important resource in the service firms (Cadwallader et al., 2010; Miles, 2005). Because there is no clear division of labor for service innovation such as R&D department found in manufacturing for product innovation (Sundbo, 2010), it has been maintained that frontline employees have a significant role in innovation processes in firms (Bessant, 2003).

Frontline employees can contribute to service innovation by their experiences which are accumulated from day-to-day interaction with customers (Karlsson et al., 2014). Therefore, the extent literature investigates the frontline employees' participation in innovation activities which address the acquisition of knowledge and experience from the frontline employees. Such studies relying on the viewpoint of one-way information flow from the frontline employees to firms might neglect the essence of co-creation—namely, dialogue. The critical feature of dialogue is interactivity between two stakeholders rather than only listening to one party (Pralhad and Ramaswamy, 2004). Considering mutual influences between parties in a co-creation relationship implies that interaction should be a two-way form (Ballantyne and Varey, 2006). This study reframes the construct of co-creation by the perspective of dialogue that highlights the two-way communication.

Prior studies assume that working closely with frontline employees can directly benefit service innovation (e.g., Ordanini and Parasuraman, 2011); however, they do not explore how the co-creation causes the changes of frontline employees in facilitating service innovation. That is, few empirical studies focus on the interaction processes from the value of co-creation perspective and this academic gap needs more explorations (Navarro et al., 2014). Based on the construct of co-creation, this study reconsiders the role of frontline employees in the service innovation projects. Frontline employees' participation in service innovation can be viewed as a kind of employee empowerment to involve decision-making of new services development. Based on two-way communication, not only frontline employees can contribute their knowledge to service innovation projects but also their sentiment might be influenced. That is, through co-creation activities, businesses might get benefits from the frontline employees' knowledge and experience in the design phase of service innovation and their devotion to fulfill new services in the launch phase. The three components of employee sentiment which are highlighted especially in this study include motivation, commitment and satisfaction. Furthermore, this paper explores these issues in the context of comparison between manufacturing and service sectors because of the differences of industrial characteristics.

2. Literature review

2.1. Service innovation and frontline employee

Service innovation is a sustainable way for companies to grow and develop competitive advantages (Chesbrough, 2011). While product innovation seems to be no longer providing an absolute advantage, companies can create value for customers through new service offerings, service processes, or service business models (Chesbrough, 2011; Ostrom et al., 2010). Nowadays, enterprises have to leverage their resources to provide better and new services for customers.

For instance, the characteristic of inseparability (i.e., production and consumption at the same time) for service implies that frontline employees play a prominent role in the success of the service innovation (Abramovici and Bancel-Charensol, 2004). That is, frontline employee is the critical resource for the service innovation (Cadwallader et al., 2010). As innovation in service firms is rarely held by an independent department that dedicates to innovation processes (Gallouj, 2002), ideas of service innovations are often produced from the interaction encountered between customers and employees. Frontline employees contact customers directly, understand the customers' needs and know what kinds of services their company can offer. Therefore, frontline employees can generate realizable, creative and customer-focused ideas for service innovation (Karlsson et al., 2014). The extent literature shows that the frontline employees' participation can facilitate successful service innovation. For example, Melton and Hartline (2010) demonstrated that the frontline employees' involvement in new service development can increase service marketability and launch preparation of new services. Ordanini and Parasuraman (2011) found that collaboration with contact employees can be beneficial for the businesses' innovation volume and radicals in the hotel industry. In short, frontline employee participation could nurture service innovation.

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