

Questions & Answers
CHALLENGES IN SERVICE INNOVATION

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Successful service firms compete through innovation because how a service is designed and delivered is in large part not protected by patent or copyright. This set of ten questions and answers can help you manage the risks and challenges of innovation in domestic and export markets.

1. How do I reduce customers' sense of risk?

One of the main barriers to innovation adoption is customers' fear of the risk involved. In purchasing services, risk is already a factor in that customers never know ahead of time how well the service will be provided. While a service provider may usually perform well, there are always those days when staff are preoccupied with personal issues or simultaneous customer demands outstrip the delivery capacity. Customers may find a service innovation concept intriguing, but they may also be concerned that the service firm is less likely to be able to control quality when providing a service with which they are less experienced.

To help reduce customers' sense of risk, try strategies like the following:

- Provide a free "sample" of the service, such as a brief presentation or assessment
- Provide a guarantee that the service is free if the customer is not satisfied
- Target a government department as your first customer (to get their blessing) before approaching the private sector

You can generate other ideas for how to reduce the sense of risk by asking your staff what else your firm could do to increase customer confidence that the innovation will result in their needs being well met.

2. How can I best manage the customer interface?

In contrast to manufacturers, your customers have some level of interaction directly with the service production process, whether "virtually" or in person. While the technical aspects of the service may be provided by professional staff, your customer's experience of the service process is shaped in large part by your front line contact staff who perform both as administrative and marketing staff.

To improve customers' experience in contacting your firm, try strategies like the following:

- Call in to your firm from outside your office to see how welcoming that initial contact is.

- Staff the phone lines so that the phones can be answered within three rings and customers are not routed through seemingly endless voice message responses.
- Transform front-end receptionists into “marketing assistants” who can add real value in interaction with the customer.

If your firm has a physical place where customers interact with staff, observe that area as though you were a customer. Problems to look for and resolve include:

- Staff who are visible to customers but are not available to help them. These staff need to be moved, if possible, out of the sight of customers so that customers don't feel that they are being ignored by staff who could be helping them.
- Interruptions to the service to a particular customer from “backstage” staff talking to “on-stage” staff in front of that customer (e.g., asking directions to supplies, asking for help in an administrative task related to a different customer, asking about the staff member's plans for the evening). All staff need to be trained to support a customer's sense of uninterrupted service and importance to the firm.

3. Do I need to train customers to participate appropriately?

Yes, if customers play a role as “co-producers” or “unpaid staff” in order to receive your service. When your firm introduces an innovation, your customers' role may need to change. This raises issues about whether or not customers will want to go to the effort of learning a new role. You need to think through how you will communicate the changed role expectations to your customers, and what additional benefits you will be providing to customers if they are willing to adopt a new role.

4. How can I manage staff performance during innovation?

Successful innovation depends on staff performance. Generally staff are motivated by increased task complexity and increased discretion in task execution. But customers are looking for consistency in service delivery. To improve staff performance and keep staff motivated, try strategies like the following:

- Create “innovation circles” (similar to quality circles)
- Give staff responsibility and authority for problem-solving areas of customer dissatisfaction
- Vary the degree of customer contact that each staff member has, to alternate routine (back office) tasks with challenging (front office) interactions

5. How can I involve front-line staff in innovation research?

Innovation research begins with assessing customer needs, and the most knowledgeable staff regarding customer needs are often the front line staff who interact directly with customers. To encourage front line staff to think about customers' needs, try strategies like the following:

- Ask staff to report at staff meetings on what they have observed about customers' behaviour (e.g., what appears to frustrate or please customers).
- Ask staff to track frequently-asked questions, and then analyze those questions periodically to make suggestions for improvements to service.
- Share letters from customers with staff and discuss why the customer has been pleased or unhappy.

6. Why should I manage customer expectations around innovations?

Customer satisfaction is linked to the match or gap between customers' expectations and their actual experience of your service. It is critical that you help ensure that customers have realistic and appropriate expectations; otherwise, you will be unable to satisfy them. This is particularly true when you are dealing with customers with whom you have a long-standing relationship and the service itself is of great importance to them. Under these circumstances, customers are likely to be overly attentive to service details that may not actually be under your control.

You will need to have strategies with regard to both your customers and your staff. With your customers, you will need to educate them about what you can and cannot deliver. It is particularly important that you make clear when you should be held responsible and when factors are out of your control.

On the staff side, you need to work with staff to make sure that they are realistic in their commitments to customers. As a general rule of thumb, you want to promise only what you know you can deliver 99.9% of the time and then delight them with your performance (i.e., "under-promise and over-deliver").

7. What are the innovation roles in my firm?

Innovation in service firms, in contrast to traditional R&D models, usually comes from:

- Customers
Direct customer participation in idea generation, concept assessment, and implementation preparation is strongly correlated with innovation success.
- Customer contact staff
Input from staff who are in regular contact with customers is invaluable in generating innovative ideas and designing the actual service innovation.
- Non-contact "back office" staff
Surprisingly, input from non-contact staff is as important to overall innovation success as that from contact staff. While not in direct contact with the customers, these staff still experience the impact of service delivery problems and are well positioned to see opportunities for organizational innovation.
- Senior management

Input and championship from senior management is critical to innovation success. Not only does management need to allocate the resources to test and implement innovative ideas, but employees will not put out the effort necessary to innovate unless they feel support. Management can play a critical role by setting the business vision, reinforcing the importance of certain issues, reminding employees of the corporate values, and then letting staff take initiative.

It is also important that senior management has a good sense of the types of innovations that make sense for the firm. Ideally, management would have a regular forum through which to have direct contact with customers. Try issuing a phone or fax number where customers and staff can make suggestions or requests directly to the CEO, and then make sure that those are answered within 48 hours. Or have all senior managers work the front line at least one half-day a month to get a sense of what the issues are for customers and staff.

Ideally all staff need to be involved in innovation activities through a mindset that looks for continuous improvement. How staff become involved, as well as the balance between individual initiative and teamwork, will be linked to cultural factors. You will also need to pay attention to how knowledge gleaned by individual staff members is shared throughout the organization.

8. What will motivate my staff to support innovation?

Any type of change requires extra effort to learn a new role. In order to have the support of your staff, you need to understand which of the following is most motivating for them:

- Increased efficiency – being able to do their job more easily
- Increased status – getting special recognition for the service they provide
- Increased autonomy – having greater decision-making authority
- Increased learning – having the opportunity to learn new skills

In order for the innovation implementation to succeed, you will want to design the innovation so that it provides staff with the benefits that are most meaningful to them.

9. How likely is my firm to innovate?

Try answering the questions below to test how likely you and your staff are to innovate at present:

1. Is innovation stated as part of your corporate objectives and business plan?
2. Do you have at least two experiments or pilots of new service concepts being conducted at any one time?

3. Do you regularly review your portfolio of service offerings to make sure that they are balanced in terms of novelty/innovation and risk?
4. Is your objective to be the market leader by exceeding the value added of your main competitors?
5. Does your financial reporting system reflect innovation as an investment rather than a cost?
6. Are you attracted by new technologies and start wondering how to apply them in your business?
7. Do you provide support to staff who try out new ideas even if the idea fails?
8. Do you have a procedure for having staff “mystery shop” the competition and report back?
9. Do you provide training for staff in innovation-related skills?
10. Do you expect to get at least 5 percent of export revenues from innovative services?

10. What about implementing innovations with an export partner?

When exporting services, it is very common to work with a local partner in the target market or to hire local staff for a project office. As soon as your firm extends its service delivery system to include players from another culture, you will be faced with needing to manage those cultural differences. This is particularly the case with regard to service delivery and organizational innovations, both of which affect staff directly. To a lesser extent, there may be an issue as to whether or not local staff value the benefits you wish them to provide to customers — e.g., if you are wanting to compete based on reduced customer wait time, it will help if your local staff themselves want very prompt service. In order to be successful jointly, you will need to agree on how to manage innovation and ideally develop a joint innovation policy and guidelines.