

Effective Factors of Customer Involvement in the Launching of New Services in Banking Systems

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Abstract

Existence of new service development process is very important for competitiveness, growth and survival of service organizations especially banking system. Customer involvement has been advocated as a potentially powerful tool for developing successful new services, while only very few NSD models try to explain how to integrate customers in NSD processes. The purpose of this paper is "identifying of the effective factors of customer involvement in launch stage of new service development in banking systems". The research was conducted as a qualitative methodology and used in-depth interviews with academic experts and managers of banking systems until theoretical saturation state achieved. The gathered data was analysed using axial and open coding methods. The research results show that customer involvement in launch stage of new service development includes totally 13 effective factors of customer involvement that were identified in five axial factors. The results can be used for improvement of customer involvement in the launch stage of NSD process in financial organization.

Keywords: New service development, NSD process, customer involvement, customer involvement in NSD process, banking system.

Cite this article: Meigounpoory, M. R., & Saffari, E. (2014). Effective Factors of Customer Involvement in the Launching of New Services in Banking Systems. *International Journal of Management, Accounting and Economics*, 1 (4), 284-294.

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Introduction

The significant share of services in the world economy makes them an important object of economic and managerial studies. A large share of innovative efforts in business is related to the development of new services (OECD, 2000). In financial services new service development (NSD) is usually organized in a sequential manner (Vermeulen, 2001; Vermeulen & Dankbaar, 2002). NSD is one of the best systematic approaches for innovation development in service organization specially in banking systems. A bank's primary aim of involving customers in NSD is to develop satisfactory new services that meet the requirements and needs of the market. It has been demonstrated by multiple researchers that customer involvement is an important success factor in NSD (De Brentani, 1989; De Brentani, 1991; De Brentani, 1995). Failure rates of innovation in services tend to be high. Clancy and Shulman (1991) report a new service failure rate of 80%, for instance, in the financial service industry. Storey and Kelley (2001) disclose in their study that 30% of new service development projects of service firms in UK did not meet objectives, caused by the lack of an efficient development process (Alam and Perry, 2002; De Brentani, 1991), and the shortage of customer orientation and input (Martin and Horne, 1995). By integrating "*the voice of the customer*" into NSD, firms increase their understanding of user needs and wishes (Anderson and Crocca, 1993). Customer involvement may also help in reducing development cycle time, i.e. "*time to market*" for launching the new service (Alam, 2006), because continuous acceptance testing by customers can take place during the innovation process (Gupta and Wilemon, 1990; Iansiti and MacCormack, 1997). The goal of this paper is to identify "the effective factors of customer involvement in launch stage of new service development". By obtaining this aim, organizations can determine optimum roles for customers in NSD that will yield a more efficient use of organization resources and improve project results.

Literature Review

The NSD Process

NSD Process has become a competitive imperative and survival necessity for all service firms including financial services (Alam, 2006; Johnson et al., 2000). Indeed, most NSD models have adapted the traditional process of NPD referring to the following stages: idea generation, idea screening, concept development, business analysis, service development, market testing and commercialization (Alam and Perry, 2002; Scheuing and Johnson, 1989). The model of Johnson et al. (2000) contains the basic steps shared by most process models in the NSD literature who suggested four stages of NSD process: design, analysis, development and launch stage. Design involves setting new service strategy and objectives that create the general boundaries for idea generation and sifting through the new ideas to find those with the greatest profit potential. In the analysis stage, managers assess the potential profitability of the project and obtain company authorization to proceed. In the development stage, the firm develops and tests the core service, delivery system, and associated marketing program, trains operational and frontline personnel, and gets user and frontline employee feedback to refine the offering. The final stage is the full-scale launch to the entire target market and the post-launch review to evaluate performance and modify the initiative, as

needed. There are only very few NSD models try to explain how to integrate customers in NSD processes (Johnson et al., 2000). The development of service innovation thorough NSD process has the great significance in service organizations. In fact, using NSD process models has a vital role in meeting customer 'needs and improving quality in service design process. The effective determinants in new service development process of Iranian private Banks has been identified by Meigounpoory et al. (2013), they express that huge expenses, and the customers' displeasure at not gaining adequate value, reveal the importance of identifying effective determinants in NSD process. Also the new theoretical model of New Service Development (NSD) process in Iranian Banking system has been introduced by Meigounpoory et al. (2013). In addition, Meigounpoory, Hosseini and Payami (2013) introduced a new conceptual model of learning process for New Service Development process in Iranian Banks.

Customer involvement

Alam and Perry (2002) described ten stages characterizing the new services development process and argue that customers can be involved in all ten stages. According to Alam and Perry (2002) customers may contribute in different ways, including stating their needs, problems and solutions, or by criticizing existing services. Customers may also help in screening ideas with their thinking, dislikes or preferences. In order to get customers' insights, the customer may be involved through face-to-face meetings, user visits or meetings, workshops, user observations or direct types of communication (Alam, 2002). Cooper (1999) asserted that despite 25 years of research into why new products fail, product developers have not learned their lessons and continue to make the same mistake in product development that lead to failure. One such mistake is that the "vice of customer" is still missing in new products. Despite this debate on the significance of user involvement, our knowledge of the characteristics and mechanisms of the user involvement process is still incomplete; therefore, the attention is now turned to the literature that specifically deals with the issue of user involvement. Nambisan (2002) argues that the main challenges and conditions for involving "customer as a resource" is first of all to get in touch with customers in a cost effective manner. Selection of appropriate customers is essential and establishing ties to actually make customers involved is important. In addition, customer incentives, company recognition and socialising are necessary for customers to share their knowledge with the service provider (Roberts et al., 2005). Nambisan (2002) further argues that customers' motivation to contribute includes control over the outcome, leading to greater self-esteem.

Customer involvement in NSD process

By allowing customers to innovate on their own or by spending time with them and actually taking part in activities with them, deep insights and new product and service ideas have an opportunity to emerge. The basic idea of customer involvement is that sticky information and insights cannot be detached from the social context in which they are generated. Therefore, the transfer of sticky information and knowledge requires deeper interactions and processes of communication (Gales and Mansour-Cole, 1995; von Hippel, 1986). Customer involvement in service innovations is sometimes recognized as the main difference between product development and service

development processes (Alam and Perry, 2002; Ennew and Binks, 1996) and customer input and involvement in the service innovation process is suggested to be even more useful for services than for tangible products (Martin and Horne, 1995; Normann, 1991; Alam and Perry, 2002). During NSD process customers provide “feedback of specific issues” as well as participate in “extensive consultation with users by means of interviews, focus group and team discussion” (Alam, 2002, p. 255). Through involvement in different stages of NSD process customers can supply information on their experiences and share their knowledge on how performance of the service can be improved. Alam (2002) was made the most extensive analysis of effects of customer involvement in NSD. he studied service development process in the financial services and discovered the following positive effects of customer involvement: better and differentiated service, reduced service development cycle time, user education, fast diffusion of service innovations, improved public relations and better customer relations. Despite the widely recognized role of customers in NSD process and benefits resulting from their involvement (Dahlsten, 2003; Magnusson et al., 2003; Martin and Horne, 1995) there are very few studies regarding customer involvement in NSD (Matthing et al., 2004). There are even fewer studies examining customer involvement in different stages of NSD process especially in launch stage. In this paper, we investigate the effective factors of customer involvement in launch stage of new service development in Iranian banking system. In this study we adopted the model of NSD in Meigounpoory and Shabankare (2013), They customized NSDP of their research for banking system according to the normative model of NSD from Johnson (2000) who argue that the NSD process has four stage, including; Design, Analysis, Development and Launch. By their study the launch stage of NSD process in Iranian banking system has nine axial factors, including; (1) Select location of bank pilot branch, (2) Resources estimation, (3) Pre-Piloting of service, (4) launch a of service in sample bank, (5) Design of marketing process, (6) Market testing and evaluation, (7) Focus on customers, (8) test and evaluation of revised services before launch, (9) Standardization and patenting of new service. The paper assumes no active role for customers in the standardization and patent of new service since that factor primarily involves managerial activities. In this paper the effective factors of customer involvement in axial factors are identified. The research framework of this paper is shown in figure (1).

According to the Literature Review and studies conducted the basic framework of this paper as shown in figure 1 that is extracted by the model of NSD process in Iranian banking system of Meigounpoory & Shabankare (2013).

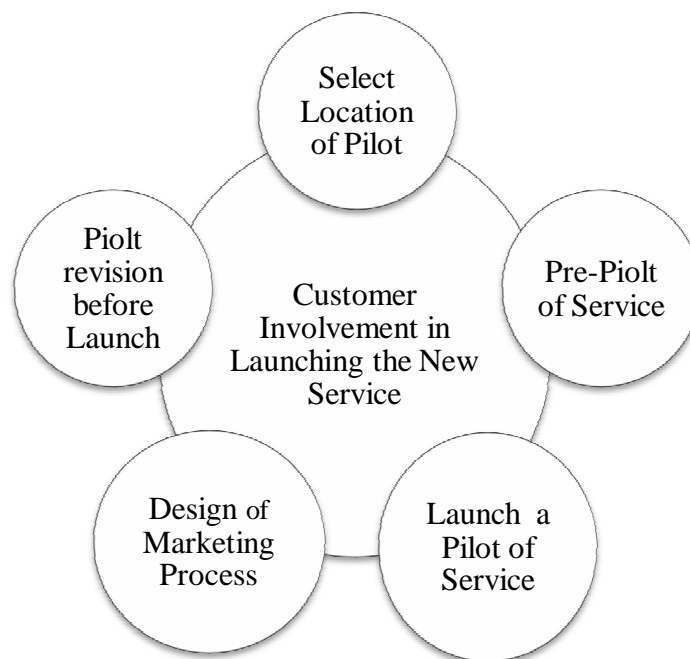


Figure 1: A framework for Customer involvement in launch stage of NSD process adopted from Meigounpoory & Shabankareh (2013)

Research methodology

This research was implemented as a qualitative study, which we conducted an exploratory study to better understand the customer involvement in launch stage of NSD process. Case of study has been focused on the banking system of Iran. The lack of extensive research on customer contributions to service innovation suggests a need to conduct in-depth, open-ended interviews with service managers who are experienced in generating, developing, and implementing new service concepts. Parasuraman, Zeithaml, and Berry (1985) recommend using a qualitative approach in the absence of well-defined theory. The sampling approach that was used is known as snowballing. Using this approach, the researchers first searched an adequate expert, and through his/her interview and recommendations obtained a list of experts as potential study participants. In the majority of qualitative studies, sample size should generally follow the concept of saturation (Glaser & Strauss, 1967). A structured interview format was used consisting of open-ended questions about the new service development process of the bank, roles of customers in NSDP of banking system, ways of involving customers in launch stage. As a principle, the targeted sampling covered the five academic experts and nine managers of banking system, which are presented in table 1.

Table 1. Demographic characteristics of the participants in the interviews

| Interviewees | Gender | Education | Experience | Organizational Position |
|--|------------------|----------------|------------------------|---|
| academic experts with work experience in NSD | 5 Men | 5 PHD | 5 – 10 year | 5 person Expert in NSD field |
| managers of banking system | 5 Men 4 Women | 5 PHD 4 M.S | 2 person 5 – 10 year | 1 person CEO |
| | | | 3 person 10 – 15 year | 2 person Assistant Manager 4 Person Senior manager |
| | | | 4 person Over 15 years | 2 person R&D manager |

Results

After the end of fourteen interviews, the researcher concluded that interviewees' information has become iterative and gone to the saturation level, therefore, it did not require continuing interviews. According to the method of Strauss and Corbin (1999), the data were analysed using open and axial coding and the factors of customer involvement in launch stage were derived in the field of banking industry. Codes form the basis for later aggregation into concepts, in open coding. The aim of open coding is to begin the unrestricted labelling of all data and assign conceptual codes to each outstanding incident within the data. Axial coding always follows open coding, and identifies relationships between open codes for the purpose of developing core codes (Strauss and Corbin, 1999). According to the model of NSD process in Iranian banking system of Meigounpoory & Shabankare (2013), the launch stage of NSD process is consist of nine axial factors, including: (1) Select location of pilot, (2) Resources estimation, (3) Pre-Pilot of service, (4) launch a pilot of service, (5) Design of marketing process, (6) Market testing and evaluation, (7) Focus on customers and (8) Pilot revised before launch, (9) standardization and patent of new service. the paper assumes no active role for customers in the standardization and patent of new service since that factor primarily involves managerial activities, so we investigated the role of customers in other five axial (as shown in figure 1). As a result, after conducting open and axial coding of the resultant data from interview with experts, 13 factors of customer involvement in launch stage were identified in the framework of 5 axial codes. As it observed in Table 2, factor of first level is main code and factors of second level are axial code and factors of third level are open code (factors of customer involvement in launch stage of NSD process).

Table 2 Results of the qualitative study, the factors of customer involvement in launch stage of NSD in Iranian Banking system

| Main Coding Concepts | Axial Coding Concepts | Open Coding Index(Factors of Customer Involvement) | Interview Code |
|---|---------------------------------------|--|--|
| Customer Involvement in Launch Stage of NSD Process | Select location of bank pilot branch | "Customer comments about the selecting location of selected bank branch according to appropriate regional condition (Population density, closeness to governmental organizations and private businesses, ease of Access, transportation facilities) has important" | I ₁ ,I ₂ ,I ₃ , I ₄ ,I ₇ ,I ₉ ,I ₁₀ , I ₁₁ ,I ₁₃ ,I ₁₄ |
| | Pre-Pilot of Service | Limited Presentation of the Initial proposed plan for new service development to specific customers (major shareholders, leading users) is very useful. | I ₄ ,I ₅ ,I ₆ ,I ₇ ,I ₉ I ₁₀ ,I ₁₂ , I ₁₃ ,I ₁₄ |
| | | We must serve and evaluate the feedback of specific customers (major shareholders, leading users) on Initial proposed plan for new service development | |
| | launch a Pilot of Service | Customer involvement for applying the new service in selected branch | I ₁ ,I ₂ ,I ₄ ,I ₅ ,I ₆ , I ₇ ,I ₈ ,I ₁₀ ,I ₁₁ , I ₁₃ ,I ₁₄ |
| | Design of Marketing and Sales Process | Comments of customers about the quality of services offered by opponent banks | I ₁ ,I ₃ ,I ₄ ,I ₅ ,I ₆ , I ₇ ,I ₉ ,I ₁₀ , I ₁₁ ,I ₁₂ |
| | | Comments of customers about how the delivery of services by opponent banks | |
| | | Identify the customer's satisfaction of the services offered by opponent banks | |
| | | Evaluation of customer's loyalty to the rivals brand | |
| | Pilot revision before Launch | Comments and feedback of customers on various aspects of the marketing plan | I ₁ ,I ₂ ,I ₄ ,I ₅ , I ₆ ,I ₇ ,I ₈ ,I ₉ , I ₁₁ ,I ₁₂ ,I ₁₃ |
| | | Finding new way of marketing and advertising according to customer's opinion | |
| | | Customer feedback about ways of informing | |
| | | Comments and feedback of customers on the new service delivery process | |
| | | feedback about overall performance of the new service along with desired improvements | |

Discussion and Conclusion

In this article, factors of customer involvement in the launch stage of NSD process in Iranian Banking System are identified, Prior research has not especially identify customer participation in specific launch stage of the NSD process. This paper builds on prior research that demonstrated that service innovation projects are more likely to succeed when they involve customers in NSD process (Martin and Horne 1995). Relationships identified between customer involvement in various NSD stages and successful services seem to be incomplete and require further consideration. Due to these reasons, we introduced factors of customer involvement in launch stage of NSD process. The results are developed on the basis of literature review, particularly studies of Meigounpoory & Shabankare (2013), Johnson (2000), Schuing & Johnson (1989) and Alam & Perry (2002). Paper results signify that it is not enough to be customer-focused and want to capture customer input in new service development. Customers

should be involved in a structured development process, at specific stages and their involvement should cause successful new services. The results show that the customer involvement in the launch stage of the NSD process, as it shown in table (3) are consist of 13 factors in launch stage.

Table 3 Factors of Customer Involvement in launch stage of NSD process in Iranian Banking System resulted from present study

| Launch Stage of New Service Development | Customer Involvement in the Launch Stage of NSD |
|--|---|
| Select location of pilot | Customer participation about the selecting location of pilot according to appropriate regional condition (Population density, closeness to governmental organizations and private businesses, ease of Access, transportation facilities) |
| Pre-Pilot of service | Limited Presentation of the Initial proposed plan for new service development to specific customers (major shareholders, leading users) Evaluate and feedback of specific customers (major shareholders, leading users) on Initial proposed plan for new service development |
| launch a pilot of service | Customer involvement for applying the new service in selected branch |
| Design of marketing process | Customer involvement about the quality of services offered by rival banks Customer involvement about how the delivery of services by competitor banks Identify the customer's satisfaction of the services offered by competitor banks Evaluation of customer's loyalty to the rivals brand |
| Pilot revision before launch | Comments and feedback of customers on various aspects of the marketing plan Finding new way of marketing and advertising according to customer's opinion Customer feedback about ways of informing Comments and feedback of customers on the new service delivery process feedback about overall performance of the new service along with desired improvements |

The concluded results were compared with the other researchers as it is shown in Table 4.

Table 4 The comparison of Customer involvement in launch stage of NSD process in Iranian Banking system with other researchers studies

| Concept | Index | Other researchers Study |
|---|-------------------------------|--|
| Customer involvement in the launch stage of NSD process | Select location of pilot bank | Schuing & Johnson (1989) |
| | Pre-Pilot of service | Scheuing & Johnson (1989), Cooper (2011) |
| | launch a pilot of service | Alam & Perry (2002), Cooper (2011), Schuing & Johnson (1989), Dalton et. al (2009) |
| | Design of marketing process | Scheuing & Johnson (1989), Alam & Perry (2002), |
| | Pilot revision before launch | Bowers (1989), Alam & Perry (2002), Schuing & Johnson (1989) |

The comparison of the literature of customer involvement in NSD process with the findings of present survey demonstrates that the results is confirmed by the studies of some previous authors such as Scheming and Johnson (1989), Bowers (1989), Alam & Perry (2002). Any design or delivery failures during testing can be corrected prior to launch or addressed with a post-launch service enhancement” (Melton & Hartline, 2010). Furthermore, Melton and Hartline (2010) said that customer involvement in design, development, and launch should lead to a service with high perceived value relative to competing offerings. Through involvement of customers in NSD process banks have the opportunity to embrace the significant customer knowledge and use it to develop successful service offerings. Despite the underlined importance of customer involvement in service innovation process, not so many researchers studied customer roles in NSD process and their effect on service outcomes. Melton & Hartline (2010) said that “customer involvement in the launch stage will not affect the definition of customer needs in the current project. Instead, customer feedback on how well the product satisfies or responds to changes in customer needs may be used for future modifications of the service in a separate NSD initiative” (Melton & Hartline, 2010). In addition, Alam and Perry (2002) found that user involvement may have a positive influence in all the phases of new service development, even though user involvement in idea generation and idea screening are found to be the most important. User involvement in strategic planning, personal training and test marketing are of the least importance.

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