

IMPORTANCE OF CUSTOMER INVOLVEMENT IN SERVICE INNOVATION AND THE ROLE OF TOTAL QUALITY MANAGEMENT

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Abstract

This study is an attempt to determine the effect of customer involvement on service innovation in banking sector of Pakistan. It assumes that the banks in Pakistan implement TQM practices for quality management. It includes various theoretical models to give direction towards understanding of relationship between customer involvement and service innovation. This literature based study provides theoretical evidences for the effect of customer involvement on service innovation. There is uncertainty about the validity and reliability of the results found. However, the literature shows significant effect of customer involvement on service innovation.

Keywords: Customer Involvement, Total Quality Management, Service Innovation, Banks.

1. Introduction

Due to globalization, demographic changes and technology developments, the service businesses as well as the service processes have been changed. There has been substantial growth in the service activity across industries. Service innovation is a hot topic of discussion among savvy marketers of present era (IfM and IBM, 2008). Service innovation is now recognized as a critical factor for the success of the whole business because it places an organization on a competitive position. Service innovation is regarded as an important factor in banking industry to gain competitive advantage. It is because the services provided by the banks are almost same in a country and so they need to create innovative and unique products for their customers. In addition, the era of globalization, liberalization, technological advancements, and changing customers' technological-driven expectations have caused major challenges faced by the banks (Moreno et al., 2005).

Central to the service innovation is quality of service provided to the customer (Chesbrough, 2011). Feigenbaum & Feigenbaum, 2005 suggests that quality and innovation are mutually dependent. Service quality is "the collective effect of service performances which determine the degree of satisfaction of a user of the service". In other words, quality is the customer's perception of a delivered service. Firms need to manage quality of services for the customer

satisfaction. This is achieved through implementation of TQM practices which lead to the continuous improvement of products or services quality for customer satisfaction. TQM is an approach to customer satisfaction by involving customers, suppliers and staff (SAE's Approach to TQM). TQM implies that services must possess the characteristics which satisfy the customers' needs and wants, and deliver value to them. According to Naeem & Saif, 2010 success of a specific bank heavily depends on the satisfaction of internal and external customers. The changing customer perception of quality requires innovation. TQM is linked with organization performance in terms of quality and innovation (Prajogo & Sohal, 2001).

Customer involvement gives a better insight to understand the needs of customers for instance what a firm requires to produce and how to deliver it to customers. Furthermore customer involvement may generate benefits in the form of reduced-cycle-time, user's education and superior services (e.g. Alam, 2002). It becomes easier in services because of higher extent of customer contact with service process. This is the reason firms are now adopting strategies that allow customers to be involved in the process of service innovation. Successful involvement of customers can provide more innovative ideas and a better way to service quality management. This study aims to identify the effect of customer involvement on service innovation in banking sector of Pakistan. It also explains how TQM plays an important role in capitalizing on customers' innovative ideas.

1.1. Importance of the Study

This study is very important in the current global business competitive environment where it has become difficult for the firms to win the customers' loyalty. This study focuses on the importance of service innovation, customer involvement and TQM practices. These three are the most important aspects of an organizations' success in terms of customer satisfaction. This study attempts to find out the extent of customer involvement in Pakistan banking sector and its impact on service innovation which provides a clear understanding for banks in Pakistan that how they can compete in the complex situations of globalization.

1.2. Research Objectives

This study focuses on the effect of customer involvement on service innovation to improve the quality of service in banking sector of Pakistan. The main objectives of this study are to:

- i. Explain the reason for service innovation from customer perspective.
- ii. Identify TQM implications for customer involvement in bank services innovation.
- iii. Determine the relationship between customer involvement and service innovation in banking industry of Pakistan.

1.3. Problem Statement

As there is increase in global competition in services worldwide (IfM & IBM), we have assumed that the banking sector of Pakistan is facing immense global competition and need to improve quality of services for customer satisfaction and retention.

1.4. Research Questions

This study will ask following research questions:

- R1. Does TQM allow customers to innovate service process of banks?
- R2. Is there significant relationship between customer involvement and service innovation in banks of Pakistan?

2. Literature Review

Lee, 2011 attempted to identify the criteria for service quality in terms of customers' perception by exploring their unaided top-of-the-mind definition of service quality in personal banking. The

sample of the study was the students of a public university that was approached through convenient sampling method and a total of 56 target sample were to indicate three criteria which were essential to provide excellent bank service. Content analysis was performed to analyze these responses. These resulted in five general categories including People-Oriented, Service-Functional, Convenience-Access, Price-Associated, and Institutional-Image factors which confirmed general inclusiveness of SERVQUAL criteria. In addition, analysis identified a new criteria "speed of service".

Borgqvist & Lindberg, (2011) studied the customer involvement in the banking industry. The basic purpose of this research paper was to identify that how different banks should involve their customer for their service innovation. Model which they have used for their research was the Alam, 2002 model. They used the internet surveys and telephonic interviews as their research method. The sample size for this research was 300 banking customers having age range from 18 to 25. After the analysis they have drawn the results that most of the customers prefer a communication system in which there is no face to face communication. This is the reason that today most of the customers are attracted toward mobile applications, social networks and internet banking. According to them the first stage for service innovation is idea generation. This stage requires the highest involvement from the customer if the customers are involved in idea generation stage of service innovation, then the innovation will be highly successful.

Kaasinen et al., (2010) studied User Involvement in Service Innovations. This study provides an understanding of foundations of research traditions from three fields: marketing research, human-centered design and media research. This study also explains the service innovation characteristics, user participation in innovation processes and sources of motivation for the user to participate. It also gives an understanding of which methods of involvement are used at different stages of service innovation. Finally it explains the impact of user involvement in all stages of innovation. The study concluded that innovation is a promising way to success and that user experience of the service is improved when users themselves can contribute to developing the service.

Lundkvist & Yakhlef, (2004) studied the customer involvement in new service development. According to them today the term customer involvement is one of the most important terms used by marketing researchers. According to them most of the research and today focusing to minimize the gap between the information from where it is generated (customer) and where is required and used (firm). For their research they have taken an organization to be used as case study. That is working with their customer involvement. This paper was one of the conversation approaches to the customer involvement. The organization which they have chosen has a very high customer involvement in term conversation between the customer and firm. According to them there should be an active participation and involvement of customer in order to exchange the information with firm. This will result in joint co execution and commitment. This information exchange process between customer and the firm is just not only important to rapidly generate new ideas but it is also as social agent between customers and the firm. There are some theoretical and practical implications of conversation based customer involvement which are very useful for generating new ideas. Kristensson, Matthing, & Johansson, 2008 identified some important strategies for better customer involvement in relation to technology based services. They used methodology of a single case study which focused on five project meetings. Four company representatives participated in those project meetings. The collected

data was analyzed by using grounded theory methodology of “constant comparative analysis.” Seven key strategies for successful user involvement in service innovation were identified: derivation from user situation, derivation from various roles, analytical tools, apparent benefits, non-use of brainstorming, limited expertise and ensuring heterogeneity. These strategies are presented as research propositions. The positive outcomes of user involvement were discussed.

Killen, Walker, & Hunt, (2005) studied the strategic planning with the help of quality function deployment. The basic purpose of this study was to online the important use QFD in strategic planning. The QFD makes the organization enable define the issues which it is facing in term customer and stakeholder outcomes and natural segment and key strategic opportunities. The research which was used as case study method, three case studies were chosen. After the analysis that QFD makes organization saved from complex analysis and help them to directly move concept generation and evaluation. QFD is very important in order to establish a level of commitment and support the result strategy within the whole organization they have also find out and address specific customer opportunities. According to them the QFD is very much useful tool for the development of a customer driven strategy.

Jiménez-Zarco, Martínez-Ruiz, & Izquierdo-Yusta, (2011) studied the impact of market orientation dimension in client cooperation. The basic purpose of this research was to investigate relevance of market orientation for the firm client cooperation in developing important innovations in the service sector. The sample size which was used for this research was 43 Spanish companies which were using radical innovation in their product field from last two years. The descriptive statistic was used for the analysis. From the analysis they have concluded that customer orientation, competitor orientation and inter functional coordination are the reason to differentiate between the firm to involve their clients in innovation and the client that did not involve significance and portion of these variables depends upon the extent to which the firm use the information and commit the technologies within the company. In their study they have clearly identified a relationship between market orientation and client cooperation. They have also identified the factors such as philosophical principles and strategic implication of proactive orientation has the most distinctive power for innovative firms. They have also identified that market orientation as element that fosters a cooperation strategy.

Von Hippel & Katz, (2002) studied the shifting of innovation to users via toolkit. According to them in conventional product development process first the need for a new product is identified this need comes from the customer. After this firms try to make new product in order to respond those needs. They say that identifying the needs of customer is not so much easier, cheap or simple or fast. But in today’s era the needs of the customers are changing more rapidly due to which companies are facing a lot of problems to cope with changing customers demand. In order to become more responsive the uses of toolkits innovate is becoming more famous. In this approach manufacture actually transfer the need related aspect of the product to the users. From the research survey and field studies they have identified that the areas or the companies which has started using toolkit products are responding to their changing customer needs more quickly and with low cost. The purpose of this paper was to identify the importance of toolkits product for the users’ innovation and why they are being used and their way of their working.

Bruseberg & McDonagh-Philp, (2002) studied the support of the focus group to the industrial product design. According to them there is a very big use of focus group in humanities social science and marketing research process. According to them the user research methods were not so much popular in the past but today these has become very critical and significant important for few product design and service innovation. Today a need is being emerged that the user

based research should not be limited to functional research but it should a lot extended to industrial research. There is a lack of the use of the focus group in industrial and design research. In this paper they have focused on the use of the focus group in industrial and design research. They said that there is a great scope of the focus group use in order to make user required product. For this they have used two organizations as case study where focus group was being used of industrial design of the product. They found that there is a very significant impact of the use of the focus to make the product which are observed and liked by the focus group.

2.1. Theoretical Framework

2.1.1. Soteriou & Zenios, 1999

Model given below was developed by Soteriou & Zenios, (1999). In this model the output is all about the level of service quality (SQ) that is achieved. Whereas service quality was measured on objective (service time, credit application approval rates) and perceptual (client’s perception) characteristics.

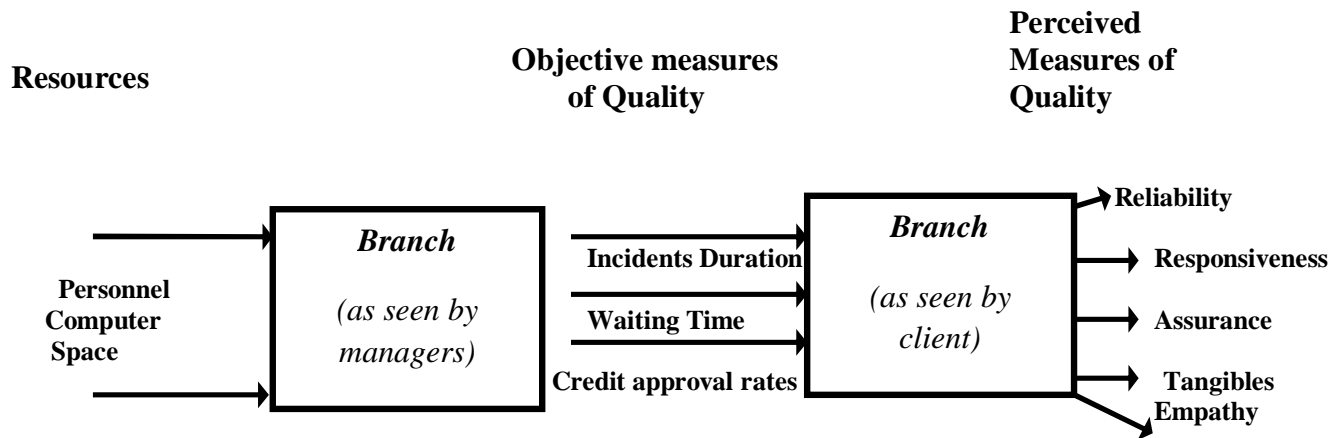


Fig.1. The two-stage model for benchmarking quality efficiency using both objective and perceptual measures of quality (Soteriou & Zenios, 1999).

2.1.2. Samat, Ramayah, & Saad, 2006

This model is developed by Samat, Ramayah, & Saad, (2006) which shows that TQM is linked with service quality and market orientation.

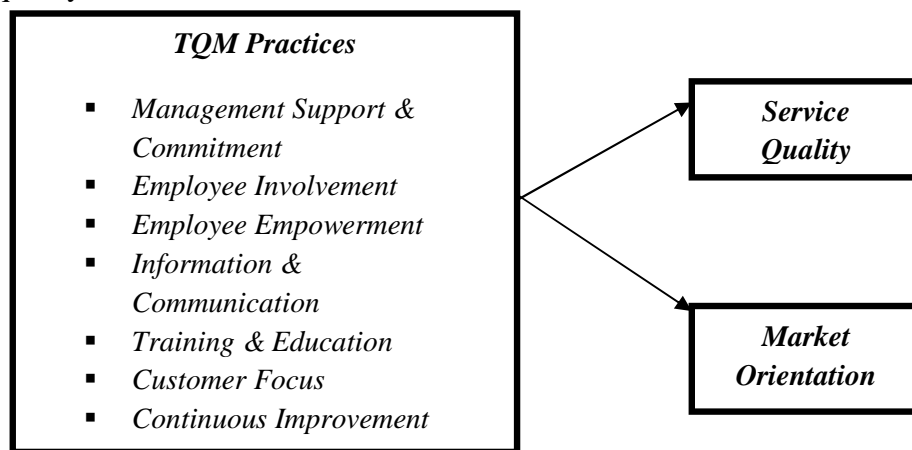


Fig.2. The Research Model (Samat, N. et al, 2006)

2.1.3. (Borgqvist & Lindberg, 2011)

Following model is developed by (Borgqvist & Lindberg, (2011) who based it on the Service Innovation Model (Alam, 2002). In which objective/ purpose of involvement includes knowledge of customer needs, use customer experience and skills, mutual understanding between customer and company etc. Stages of involvement include ten stages of service innovation process model (Alam, 2002) which are summarized as Idea generation, Development process, and Evaluation & Feedback. Intensity of involvement includes active involvement and passive involvement. Finally, Modes of involvement includes focus groups, face-to-face interviews, customer observation and feedback etc.

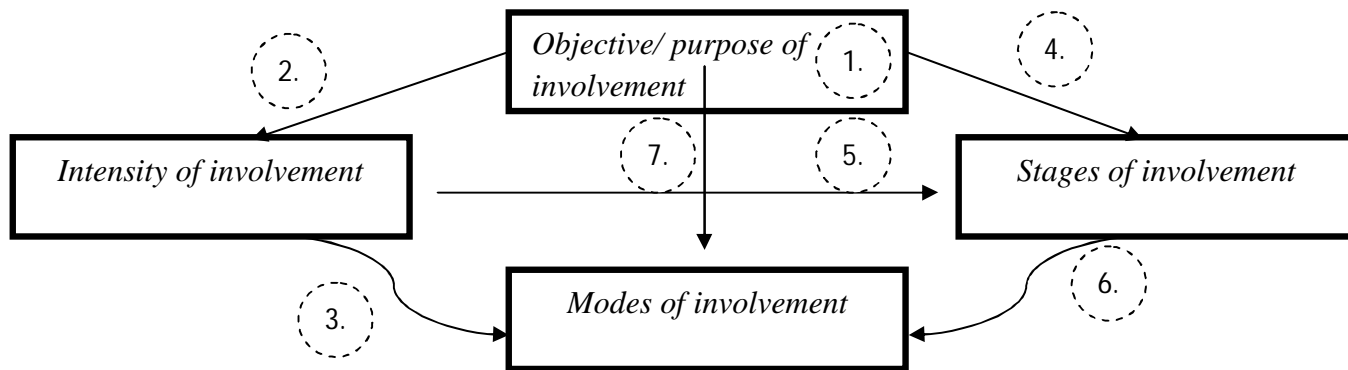
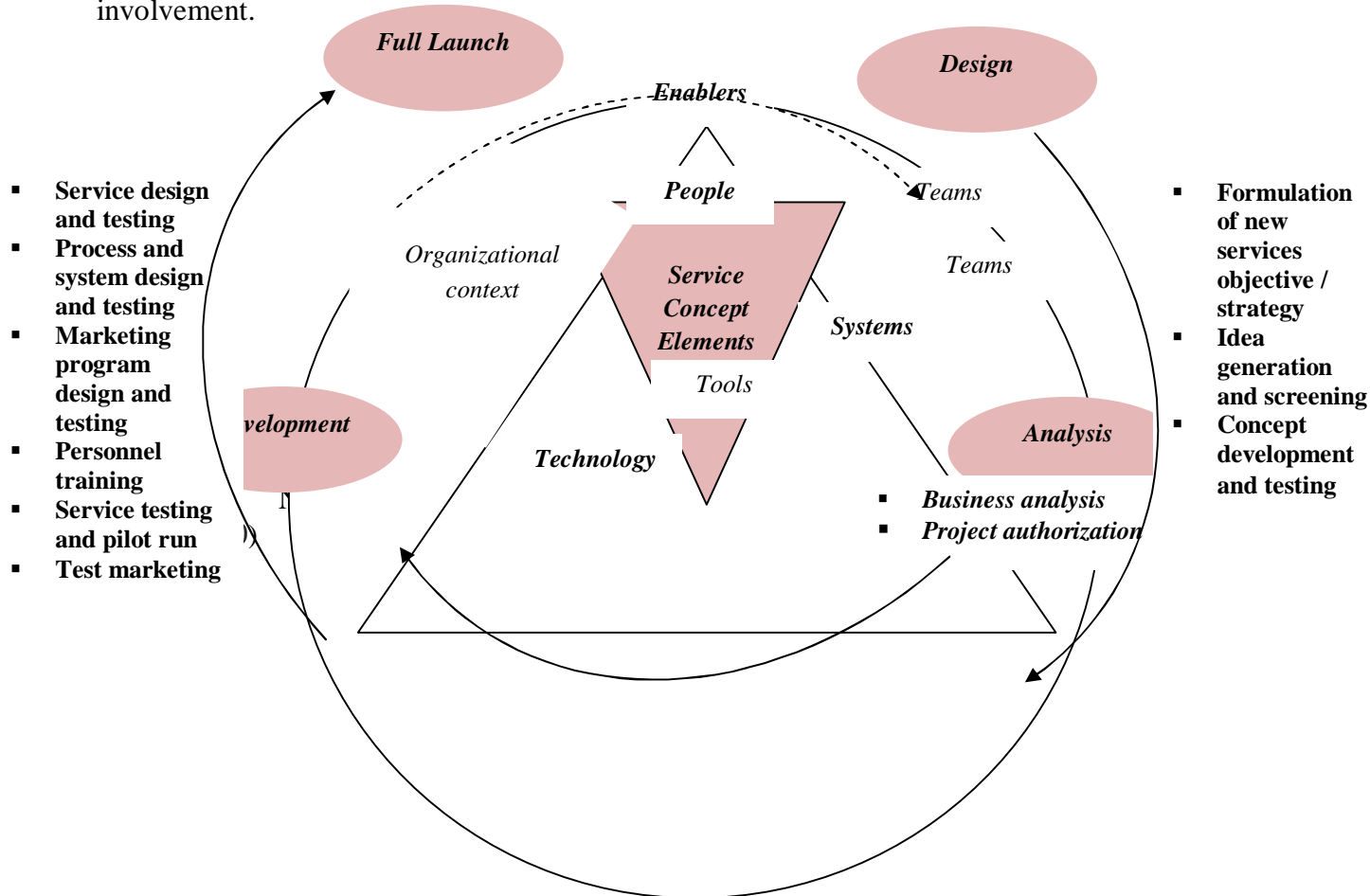


Fig.3. Borgqvist & Lindberg (2011) based on Alam (2002)

2.1.4. NSD process cycle. (Johnson, Menor, Roth, & Chase, 2000, adapted by and Eija Kaasinen et al. 2010)

The following model represents New Service Development process cycle. It includes five stages: new service concept, design, analysis, development, & full launch, and also stages of customer involvement.



This model is also used by Huang, (2011) in the development of integrated service innovation model which is discussed below.

2.1.5. An integrated service innovation model (2011)

This model was developed primarily for the study of service innovation in investment banking. And it gives a better view on business models in five perspectives that were interrelated these are shown as under. Along with five interrelated perspectives, the model also described three supportive dimensions named: process enablers, new client interface, new service delivery system.

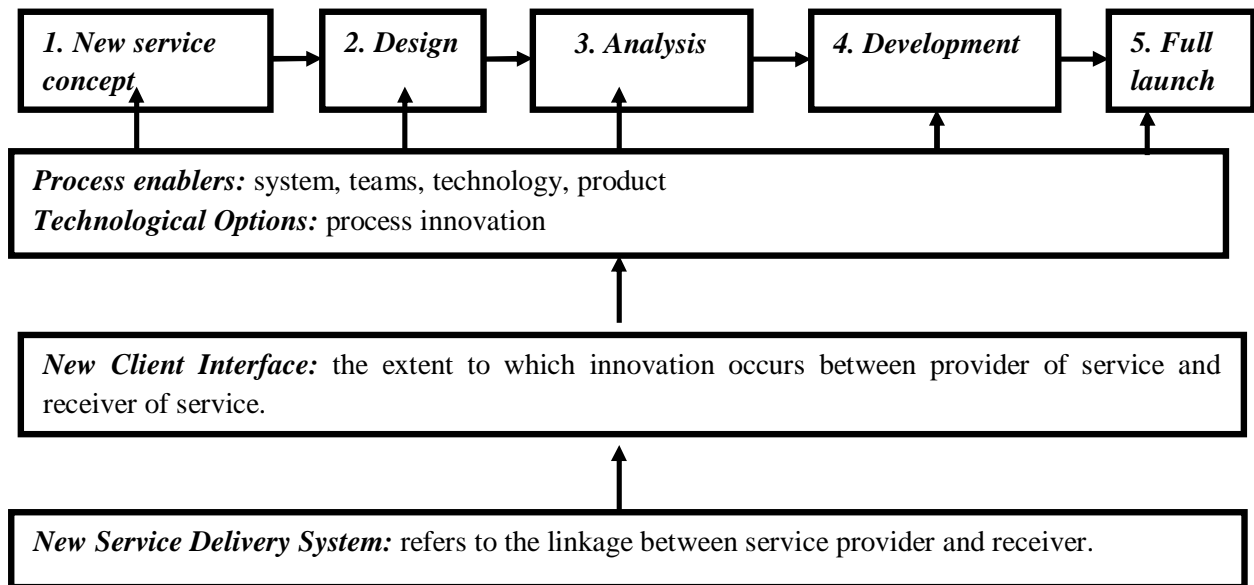


Fig.5. An integrated service innovation model (Huang, 2011)

2.2. Conceptual Framework

By using above theoretical models we have developed conceptual model for our research. It will be used to study the relationship between customer involvement and service innovation in banking sector of Pakistan. The study considers that the banks being studied implement TQM practices for managing service quality.

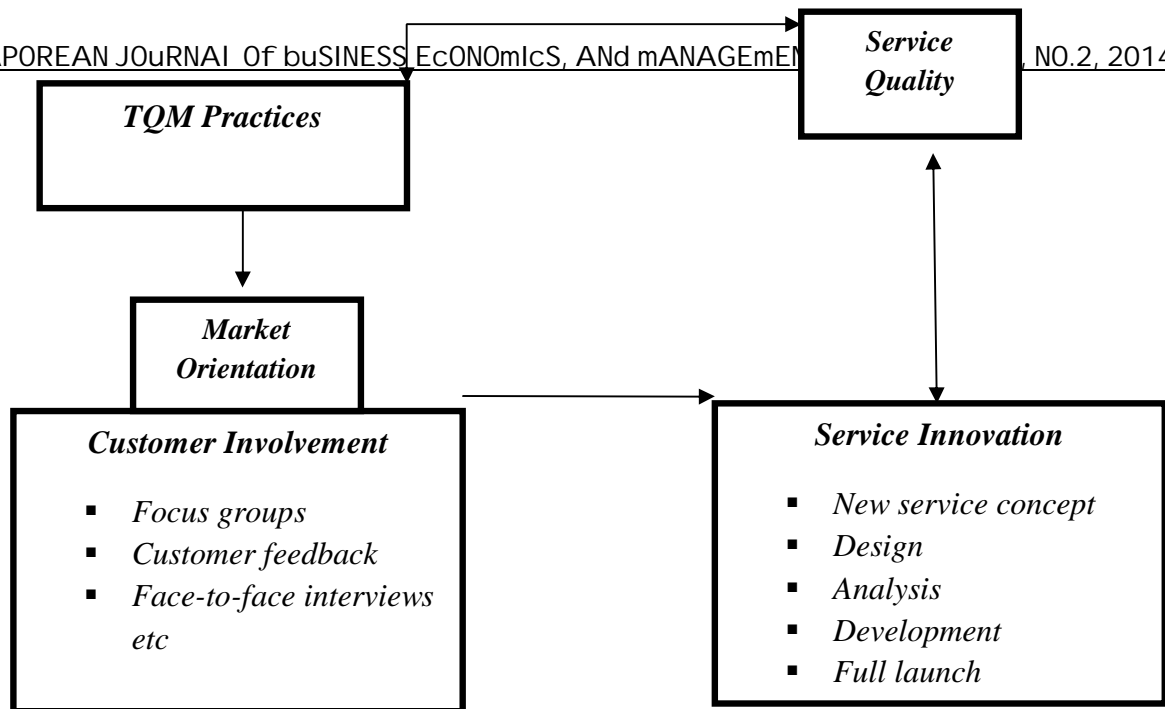


Fig.6. A conceptual framework

3. Methodology

This is a literature based study. No survey has been conducted. It entirely depends on already concluded results by the other researchers. We have made a lot of assumptions in drawing our results from the literature. Because of this fact the results lack in validity and reliability.

3.1. Variables

This study considers customer involvement as independent while service innovation as dependent variables. Three helping variables are TQM, service quality and market-orientation.

3.1.1. TQM practices

Among all quality practices, increasingly organizations have focused on total quality management (Samat, Ramayah, & Saad, 2006). TQM practices include:

- *Management Support and Commitment*
- *Employee Involvement*
- *Employee Empowerment*
- *Information and Communication*
- *Training and Education*
- *Customer Focus*
- *Continuous Improvement*

3.1.2. Service quality

Service quality has been central from last decades because it contributes in cost reduction, increased profitability and better customer loyalty (Guru, C. 2003); Hallowell, (1996). The customer feelings about the quality are the determinant of customer satisfaction (Quinn, 1997).

3.1.3. Customer involvement

According to Lin, Chow, Madu, Kuei, & Pei Yu, (2005) it is very important to perform customer feedback on regular basis in order to offer better quality services. Customer feedback can be obtained through opinion polls, survey and QFD. They further added that the attributes rated high by customers for a specific market offerings should be exactly identified.

3.1.4. Service innovation

According to Kaasinen et al., (2010) service itself identifies the process for service innovation. Similarly, Vargo & Lusch, (2004) identified that comparing similarities and differences among different services lay down foundation for new service development.

3.2. Hypotheses

We have developed two hypotheses for our study:

H1. TQM allows customers to innovate services in banking sector of Pakistan.

H2. Customer involvement is significantly related with service innovation in banking sector of Pakistan.

4. Data Analysis

4.1. *Testing H1. TQM allows customers to innovate services in banking sector of Pakistan.*

Customer focus is a TQM principle that encourages organizations to be innovative as well as to involve customers into the innovation process. The significant focus of TQM on customer basically provides foundation for innovation in order to provide better services to attain better customer satisfaction (Prajogo & Sohal, 2001). Researchers have identified that customers can play five roles with regard to their involvement in firms' value creation: customer as "resources", "co-producers", "buyers", "users" and "products" (Kaulio, 1998; Nambisan, 2003). However, how TQM involves customers in service innovation is not much studied.

According to Samat, Ramayah, & Saad, (2006) has relationship with both service quality and market orientation. Market orientation has been recognized as an important task of the organization and customer focus is one facet of market orientation. Samat, Ramayah, & Saad, (2006) have identified various TQM success factors from the literature in which customer focus was common among all. TQM also lead to better product and service quality that provides higher value perception. It can be argued that TQM' focus on quality improvement and customer satisfaction will lead towards customer involvement in service innovation. It is more likely to lead to the discovery and understanding of latent needs, and would thus seem more appropriate to effective market-oriented NPD (Kristensson, Matthing, & Johansson, 2008).

It is also identified from the literature that customers are capable of defining service quality (C. Lee, (2011) as well as of innovating services (Von Hippel & Katz, 2002). According to Killen, Walker, & Hunt, (2005) QFD is very much useful tool for the development of a customer driven strategy. QFD is an important tool used in TQM to get customer insights regarding product and service development.

4.2. *Testing H2. Customer involvement is significantly related with service innovation in banks of Pakistan.*

Borgqvist and Lindberg (2011) have identified that if the customers are involved in idea generation stage of service innovation, then the innovation will be highly successful. They further indicated that frequent involvement of customers in the process of service development may develop the level of commitment but the originality of information is a question of concern in this regard. It is discussed that the basic purpose of customer involvement is to customize products which is influenced by customer's needs. They can also help in faster diffusion of innovation if involved from the beginning. (Borgqvist & Lindberg, 2011) have identified that that there is a very significant impact of the use of the focus groups to make the product which are observed and liked by the focus group. Hippel and Katz (2002) have identified that a switch to user-based customization via toolkits can affect their ability to do this over the long term. The manufacturers of

products or services can gain competitive advantage if they introduce toolkits at early stages of innovation. They can benefit from customers production skills. Users will be able to get exactly what they need because they have designed it by themselves.

Kristensson, Matthing, & Johansson, (2008) have identified that customer involvement has positive effects in generating new product ideas. They also argued that user involvement can provide a better understanding of their latent needs which are very important in the process of new product development. They have proposed several benefits of customer involvement in service innovation. Some of which include contribution of customers are created with their own personal needs in mind, participants can have knowledge of what should be feasible, customers are not technical which produces truly innovative ideas, and the production of ideas promoted by heterogeneous set of users will serve a variety of market segments. Lundkvist & Yakhlef, (2004) have argued that there should be an active participation of customers in service innovation in order to exchange necessary information with firm. Customers can bring significant changes to the firms through their innovative ideas. They conclude that using customer involvement will enhance the continuity of interaction with customers. Kaasinen et al., (2010) have identified that customer involvement in service innovation will increase their customer experience.

5. Discussion

The results have found that customer involvement has an effect on service innovation. The service innovation is said to be related with continuous improvement of service quality which ultimately satisfy the customers. The customer satisfaction and feedback will be an input into service innovation of TQM organizations. The literature suggests that rather than merely listening to the customer needs companies should have active collaboration with the customers in order to identify their latent needs. Involving customers in service innovation of banks together with the implementation of other TQM practices will lead towards the competitive advantage.

6. Conclusion

This study concludes that there may be a significant effect of customer involvement on service innovation in banking sector of Pakistan. While TQM helps banks in managing service quality and innovation as well as the successful involvement of customers in service innovation.

7. Limitations

The limitation of this study is the shortage of time and data. We had only one month to complete this study. A lot of difficulties were faced in collecting data. Another limitation is that we have not conducted any survey and the results are entirely based on literature and do not provide certainty about the validity and reliability of data.

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