

Service Innovation in Banking Industry: A Literature Survey

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The purpose of this article is to investigate Service Innovation in services industry based on the extensive literature review in which debates on several weaknesses and benefits of Service Innovation among the experts are prevalent. Past research suggests that Service Innovation has a goal of generating solution to the customers' problems which provide added value for both customers and companies. Further, Service Innovation is considered the key to success in gaining a competitive advantage. However, there are weaknesses in implementing Service Innovation. There is an imbalance between the needs of consumers and the Service Innovation, i.e. the orientation of the technological innovation the Service Innovation adopts. Besides, the innovation systems are sometimes weak and do not last long in services industry, and at the same time sophisticated technology is not used. Research across different sectors also provides a different impact on customer satisfaction and loyalty. Other studies suggest that Service Innovation is rather difficult to be patented because it is intangible, easily replicated, and relatively difficult to create the uniqueness. Research on Service Innovation, especially banking sector, is often done, but it is more focused on technology. Meanwhile, Service Innovation which focuses on the collaboration between producers and consumers is relatively rare. One of the technological innovations adopted in Service Innovation and widely studied is the internet banking that provides many facilities and benefits for customers. However, the bank must be aware of the fact that the level of customer contact with bank is relatively low. The implications of Service Innovation in the banking industry are also discussed.

Field Research: Banking, Service Innovation in Banking Sector

Keywords: Service Innovation, Personal Touch, Banking

1. Introduction

Increasingly volatile business environment along with globalisation, emerging new technologies, and deregulation have led to the restructuring of financial service industries in virtually many countries. Consequently, companies today will have to compete to satisfy their customers by implementing Service Innovations in order to win the customers' heart. Direct interaction with the customer has been argued to be a key feature of Service Innovation activities (Gadrey, Gallouj, & Weinstein, 1995; Sundbo & Gallouj, 2000). Innovation in services appears to be based on the weaknesses or deficiencies in service practices, thus creating the needs for renewal that can be beneficial to the growth of business services (Miles,

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2006). Based on the results from previous studies, it is concluded that there is still a debate over the results of research on Service Innovation. Some researchers state that study of Service Innovation is still limited, especially in the banking sector and some of them only explore the technology side, and not much research is undertaken on the personal aspect of the customer, which is part of the innovation. While in the service businesses such as banks, how to touch the emotions of customers is a very important aspect and it is quite unique. Uniqueness is personal touch. The purpose of this article is to investigate a new concept based on the extensive literature review on debates of experts over several weaknesses and benefits of the Service Innovation. Yuan Lu & Jui Tseng (2010) suggest that Service Innovation is a process that consists of a new concept and production, development and implementation of a behavior. Because the purpose of innovation is to provide new solutions for customers (Hertog, van der Aa, & Jong 2010), it is important that the behavior of our target customers is fully comprehended and learnt before the implementation of the Service Innovation. One of the challenges in implementing Service Innovation is to understand the behavior of target customers. This article is structured into three sections. Next section will briefly discuss the literature review, followed with results/analysis. The conclusion will be discussed at the end.

2. Literature Review

The concept of Service Innovation has not been progressing well since it was first introduced in 1980s (Droege, Hildebrand, & Forcada 2009). Miles (2008), a researcher who is quite concerned with Service Innovation, reveals that innovation in services appears to be based on the weaknesses or deficiencies in service practices, so renewing the concept of Service innovation is needed. This new concept would be beneficial for the service businesses. The increased competitions in the business services and the more diverse the business services are, require a service product to have a value that have a lot of conveniences for customers.

Yuan Lu & Jui Tseng (2010) proposes that applying the rate of innovation would increase an enormous customer involvement in product development process. In this respect, the implementation of product innovation or Service Innovation requires the involvement of customers. Sunbo and Gallouj (2000) suggest that Service Innovation activity generally begins with the concrete problems between the company and customers. Companies and customers work together in finding new solutions, which will later be formally developed into services offered to the market. Junarsin (2010) suggests that innovation is the key to gain a competitive advantage in service industry. However, there are often gaps in carrying the implementation of innovations by service companies, for instance, in introducing innovative ideas, companies do not always match and offer what the customers want. Service Innovation is very easy to be imitated because it is simple and it does not use a sophisticated technology (Sundbo, 1997). Besides, service is intangible and can only be perceived by service users. When the users are the competitors, it will be very easy for them to imitate, because the experience of the services is directly perceived and is highly related to its target market segments. The goal of Service Innovation is to provide the benefit for both the customer and companies (Edvardsson, Enquist, & Hay 2006). In addition, Service Innovation as a new service or experience, which also provides a solution, consists of service from multiple dimensions. Multiple dimensions include service offering, a new customer interaction, a new delivery system, technological customisation of service, as well as information and communication technology (Hertog, van der Aa, & Jong, 2010).

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Innovation in services appears to be based on the weaknesses or deficiencies in the service practices. Some companies are reluctant to implement the Service Innovation because it is not quickly accessible by customers, and it is sometimes incompatible with the needs of consumers, thus resulting in the needs for renewal that can be beneficial to the growth of business service. Kuusisto & Riepula (2009) and Sundbo (2006) share the same opinion that the problems of Service Innovation are rather difficult to be standardised. This is because services are intangible. Many small and medium scale enterprises have implemented the Service Innovation on an ad hoc basis. That means the Service Innovation is not offered formally, because not all customers need it according to Hertog, van der Aa & Jong (2010).

An intensive collaboration between customers and companies would become an important source of inputs for the innovation that will provide solutions and benefits for customers. Innovation-oriented company will lead its organisation members to be innovative, and expert in managing their new innovations in such a way so that consumers benefit from them. Cruz & Paulino (2011) mention that a good innovation is the one that comes from customers. Because the creation of a Service Innovation is focused on customers, the process of creating a Service Innovation will always involve customers. Junarsin (2010) supports the opinion of other experts who agreed that the success of a Service Innovation is determined by the human resources of the Service Innovation itself.

Besides human resources, technology is also one of the dimensions that can increase the effectiveness and efficiency of Service Innovation. For example, in a bank, such technologies as ATM and e-banking are utilized in serving consumers. However, some researchers such as Bittner, Ostrom, & Morgan (2007) and Edvardsson, Enquist, & Hay (2006) suggest that the use of technology is not everything in the service sector. They agree that applying Innovation Service would likely increase the level of involvement of consumers in the process of a product development.

Bittner, Ostrom, & Morgan (2007) conclude that Service Innovation is less disciplined and less creative than manufacturing and technology sector. In other words, innovation involving human behavior in its process is still rarely studied because of the nature of services that are easily replicated so that the development of innovation in services is rarely done.

According to Sebastiani & Paiola (2010), successful innovation often comes from things that are not technological. Sophisticated technology is not a guarantee to provide excellence in performance. They further suggest that direct interaction with customers is one of the privileges in Service Innovation activities. In the past, Service Innovation was perceived to be unimportant because of its intangible nature. However, due to the fact that service industry is growing rapidly, Service Innovation is forced to be developed. This is in line with the opinion of Oke (2007) who agreed that Service Innovation is considered as a source of competitive advantage.

Some researchers are not interested in studying Service Innovation because the implementation of Service Innovation is easy to imitate. Customers are directly involved in the process of delivering company's services. Unlike the manufacturing, customers are not directly involved in the production process, making it relatively difficult to replicate. Sundbo (1997) shows that the tradition of Service Innovation is non-technical, but based on changes in behavior, which is very different from the opinion of Barras

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(1990) that emphasises the Importance of technology. The mention of Sundo (1997) is related to Sebastiani & Paiola (2010) and Gallouj (2002) that agreed that Service Innovation relates to people and organisations, and it is frequently non technological. Results of Service Innovation research in the banking sector (Laukkanen *et al.*, 2007) specifically on technology suggest that internet banking delivers many benefits to customers, although the bank must be aware that the level of contact with customers is quite limited. This implies that although technology is important, it is not everything. Differences of opinions among the authors are considered very important because they find the best in this service concept in the rapidly developing science. Thus, people will seek certainty by conducting in-depth research on the existence of such differences, so more and more findings, or science in the Service Innovation will be developed.

Sebastiani & Paiola (2010) and Gallouj (2002) recommend that Service Innovation should be more focused on the uniqueness and the ability of people in serving customers. This implies that the interpersonal relationship is so important that for whatever advanced the technology is, the personal touch is still preferred. Research carried out at the bank by Laukkanen *et al.* (2007) about Service Innovation resistance among mature consumers shows that determining the type of Service Innovation really depends on its market segment. Mature segment (age above 55 years) was very careful over the risks of innovation offered by banks, for example a PIN number which is more than 4 digits was difficult to remember, and e-banking became consideration when the customer was difficult to find the signal for internet access. Some results of research revealed that the implementation of Service Innovation could give effect to the satisfaction or loyalty of customers to a corporate. This effect can also be used to measure the performance of a corporate. As for the research that measures the adoption level of customers in a banking service, i.e. internet banking service, Majali and Nik Mat (2011) emphasise on such dimensions as trial ability and compatibility to measure the adoption level towards the Service Innovation. Trial ability allows the individuals to “test drive” the innovation before it is being adopted, and compatibility is to evaluate the compatibility of adopter’s socio-cultural values and beliefs with the innovation being introduced. This research shows that the absorption by the customers of the bank towards the implementation of internet banking services is still very low although the bank has spent millions of dollars to improve the service internet technology.

Research on Service Innovation has also been performed on other sectors in addition to the bank. For example, Rekettye (2009), who conducted research on retail, found that there was direct influence of Service Innovation on customer loyalty. However, the company supports that innovations increase the value (revenue and market share) according to Dachyar & Fatkhurrohman (2011) who conducted research in 11 companies of telecommunications providers. Relative advantage and compatibility variable (innovation attributes) did affect customer loyalty significantly. Saeed, Khan & Hussain (2007) conducted research in Pakistan about the innovations in 6 large telecom operators, namely Mobilink, Ufore, Teleno, China Mobile and Instaphone, the purpose of which was to increase user satisfaction by the service, and introduce new bids. Other researchers who focused their research on Service Innovation were Birgelen, Ghijsen and Semeijn (2005). They conducted empirical cross-sectional research on a catering service company where Service Innovation was implemented in e-service quality towards its on-line customers besides its traditional services. The point was to evaluate the added value of using the web as a Service Innovation in traditional services in which barbeque food service delivery was offered. The results proved that the dimensions

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existed in e-service as the implementation of Service Innovation. This means that the e-service had a limited impact on consumer satisfaction. Oke (2007) conducted research on the implementation of Service Innovation and product innovation using incremental and radical innovation implemented in the banking. The study indicated that the use of incremental Service Innovation and incremental product innovation was more successful than the use of radical product and radical Service Innovation. This means the banking services sector had difficulty to implement radical innovation because it is something that is really new. It is not easy for the consumer services to adopt something that is really new because of its intangible nature. In addition, the incremental requires a pre-existing creation. Research on innovations conducted by several companies showed that innovations could increase customer satisfaction.

It is clear that Service Innovation has been applied in several different service industries. The results of the above research indicate that the impact of Service Innovation in banking sector on loyalty does not always provide a positive influence. Laukkanen *et al.* (2007) find that research with different objects and in different sectors will give different results. Some companies use customer satisfaction and loyalty as a measure in determining a company's performance. Although there is still very little research that links between Service Innovation and loyalty especially in banking. The findings in some studies revealed positive significant results.

3. Result/Analysis

The research aims to examine Service Innovation in banking sector. The Service Innovation today is still in its research phase, because this research is still new and has not been widely studied, particularly the one involved human behavior

Based on previous discussions that the benefits of service innovation can be applied to the company as a competitive advantage. Because of the weaknesses, the company must continue to make changes by introducing new innovations. Because service innovation can be easily imitated, it would not be unique as many companies are able to replicate it. The obstacles of service innovation creation in technology such as e-banking is the built of system that, takes time and is costly. However, once companies are successful, other companies can easily imitate. This makes the service innovation not interesting to be developed. Thus, the ideas are needed to be continuously developed in anticipation of a very tight competition.

Therefore, there is still debate about the results and a further research is needed. The importance of Service Innovation has been emphasised by many researchers such as Sundbo (1997), Sebastiani & Paiola (2010), and Hertog, van der Aa, & Jong, (2010). Findings from previous conceptual and empirical research stated that the personal aspect was very important in services because services could not be separated from human management. Technology is one of the implementations of Service Innovation, but the most important thing of the innovation is how it can change the behavior of customer. Particularly in the banking sector, much research on technology such as internet banking and SMS banking shows that technology provides facilities and convenience for customers. The sophistication of current technology is that it has reduced the number of direct contacts between the customer and the bank. However, there are some problems in using internet and SMS banking including security risk and low battery of mobile phone, and some mature segments expressing discomfort with

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PIN number consisting of several digits. For the banks, sometimes technology are not appropriate if not being able to precisely define the market segments, and therefore technology-based product features must be continually developed. Internet companies that have implemented such a sophisticated and modern technology may not be adopted by customer, due to technology sophistication that causes them to feel unconfident to operate it, thus making them hesitant to use it.

In-person transaction in the bank between customers and the bank needs to be put in place because the emotive touch of such interaction may create an effective transaction. Therefore, in determining what technology should be used and how it can be applied requires the collaboration between the consumers and the bank. Applying advanced technology that cannot be adopted by customers or not useful should be avoided. The collaboration that should be undertaken by the bank is by involving customers in the discussion on how to create new service products that can provide solutions and benefits to customers so that the new service products are effective and can be well accepted by customers.

An example in the settlement of credit, the bank provides a solution to the customer installment payment as its customised scheme although it cannot be applied generically to all customers.

In today's business world, competition in the services sector has become strong and fierce. Therefore, marketers need to win customer hearts, and touch the customer emotions as a form of uniqueness. This condition is a challenge for banks to make Service Innovation creatively. Consequently, if banks can compete on competitive advantage basis, they would result in a good corporate performance. In the discussion above there is a comment that technological innovation is not an absolute factor to be implemented in the Service Innovation. Also, there are others suggesting that direct interaction between service providers and clients is a privilege factor to do in the Service Innovation. Some examples of the uniqueness that can be applied in banks is a customized service, for example providing mature segment above 55 of age with a free health check-up or giving financial consultation. This may bring consumers with different businesses to be business partners, which may result in a turnover of money for the banks. But the weakness of Service Innovation is that it is very easily imitated.

Competitors can easily do benchmarking because competitors can also play as a customer and may feel the service process directly. Another unique service a bank can do is by offering a personal financial consultant for its customers, for example, providing advice on the utilisation and on benefitting the funds from the bank so that it can be profitable for both the customers and the bank. It is expected that the customers will find it helpful, feel comfortable, and confident in conducting a transaction with the bank employees who act as the spearheads of the bank. Next is the bank can offer business solutions to the customers whom the bank interacts with. For example, the bank can bridge among its customers that have the same business interests so that their business can sustain, thus making them save their funds at this bank since the bank has a role in providing financial consultation to them. In other words, the application of Service Innovation is to consider its market segmentation since its goals are to provide solutions to the problems faced by customers and to provide more benefits for customers.

4. Conclusion

This article has offered insights on the importance of Service Innovation and how useful it is in service sectors, especially in banking. Differences found in the opinions among the authors can provide more solutions and alternatives because their opinions are supported with facts. Thus, it can assist practitioners in making decisions in implementing Service Innovation in the services sector in accordance with the results of their research. It is suggested that Service Innovation deal with how to change customer behavior, change customers who have been reluctant in using technology in their financial transaction process to finally be the ones who are willing to accept that technology is a solution that can simplify the transaction process, and change customer to be the one that is willing to provide advice and services in creating service products that provide solutions for both customers and companies. One way to deepen Service Innovation is by exploring customers since technology cannot always make customers happy. In fact, technology can sometimes confused customers although, to some extent, it depends on which market segments to use what technology. Because the competition in services is strong and fierce, companies must make sure that they know really well what is wanted by their customers so that customers receive the best value of the Service Innovation the company offers. It is acknowledged that more research on services in banking sector needs to be undertaken.

Actually, the use of technologies such as e-banking to serve customers can be implemented primarily for the retail market. Corporate market or prime customer in some cases should be done personally or face to face basis by a company representative to keep or maintain the company's relationships with customers. In particular, further research on how banks can influence their customer behavior with the personal touch may be feasible to do, because this is one of the uniqueness in bank sectors that can differentiate one bank from another bank. The uniqueness of this is done through innovation. Another further research to compare the Service Innovation in banking to retail and corporate segment can also be done. Further research may also focus on Service Innovation with technology and Service Innovation with an emphasis on emotional touch.

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