

Service Innovation and Customers' Involvement in Service Industry in Kosovo

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Abstract

New developments in the economic arena and rapid technological changes have shifted the economic power from company to customer. As a result, companies changed their approach toward customers' involvement in new product and/or service development.

Usually, innovations are driven by inventions. But not all inventions are successful innovations. Hence, to be successful, inventions should be explored to meet customer needs and demands, and commercialized to make the company profitable (DTI - Occasional Paper No 9, 2007). According to Lowe and Marriott (2006) the innovation is a process of creating and transforming products, services, and organizational processes that are crucial for companies who want to compete in a highly dynamic and competitive market.

In this regard, the paper aims to explore the interrelation between market and innovation in services industry, whilst analyzing both customers' impact in new service development (NSD) and Kosovo's service providers approach in including customers in service development processes.

The findings highlight an increased customer power over the NSD processes as a result of their demand and unwillingness to bear the cost of or experiment with new, untested services. Given these developments service providers have started to change their approach of creating and

transforming services, namely by involving customers in the service design and development processes, in order to stimulate interest for using and willingness to pay for new service.

Keywords: Innovation, Marketing, New Service, Service Provider, Customer, Involvement.

1. Introduction

Globalization, digitalization, and rapidly changing business environment changed the business concepts, with it changed the marketing concepts. During the years, marketing evolved from product-centered marketing (Marketing 1.0) to customer-centered marketing (Marketing 2.0) then to value-based marketing (Marketing 3.0). According to Kotler, et. al.(2010) there are three major forces that shaped business landscape that are the building blocks toward Marketing 3.0: the age of participation and collaborative marketing; the age of globalization and cultural marketing; and the age of creative society and human spirit marketing.

In this regard, innovation is crucial for all companies who would like to coexist and compete in a highly competitive business environment. Usually, in the minds of the customer the innovations relates to physical offering or product. But new technological offerings “are not sufficient to differentiate the offer” (Gegaure et al., 2011; Kowalkowski et al., 2012, cited by Gremyr, et al., 2014). Thus companies should also think of strategies to develop new services to build competitive advantage, to create new markets (Ostrom et al., 2012 cited by Gremyr, et al., 2014; DTI - Occasional Paper No 9, 2007) and establish customer relations.

Although technological and not-technological inventions trigger innovations, not all inventions are successful. The failure rate of inventions is quite high, even if all set steps and procedures for new product/service development are followed. According to Kotler and Keller (2012), the failure rate of innovation in USA is 50 percent to 95 percent whilst in Europe the failure rate is 90 percent. Mostly innovations fail due to misinterpretation of market research results not identifying the customer needs correctly and overestimating the market size; high cost of development and insufficient ROI; poor design or bad performance; advertising and targeting the wrong market segment; not priced correctly; lack distribution channels; strong competition who fights back etc. In other

words the inventions fail, if not explored to meet customer needs and commercialized to bring profits for the company (Lowe and Marriott, 2006).

Nowadays the technology and social media have enabled companies to collaborate more with customers. Customers are playing an active role in innovation as co-creators, co-advertisers, and partners in doing business (Kotler, et al., 2010).

The technological advancements also had an impact in the rapid growth of the service industry. Services are characterized by continuous interaction between company and customer. As indicated by Crespi et al. (2006, cited by DTI - Occasional Paper No 9, 2007) the most important service aspect is the relation between production and consumption, which is inseparable. Services are produced and consumed at the same time. Thus customer involvement into NSD is crucial to delivering value at the right place, in the right time to their satisfaction.

This paper tries to explore the cohesion between customer and the service provider whilst analyzing both customers' impact in New Service Development (referred now as NSD) and Kosovo's service providers approach toward customers' involvement in developing new services.

2. Research Methodology

To analyze service providers' approach toward NSD and to what degree service providers involve customers in NSD, was conducted an online survey with service providers from different sectors in Kosovo. The sample size consisted of 200 active service providers registered at the Turn Around Management- Business Advisory Services (TAM-BAS) database. For this purpose was used an online questionnaire that consisted of 17 questions of Howell and Tether¹ (2003) research that were adapted to fit the nature of the service industry in Kosovo. Out of 200 service providers 30 percent responded to the survey². Depending on a number of responses from each sector the raw data, was grouped and analyzed in three clusters:

¹ Jeremy Howells and Bruce Tether, have conducted a research (interviews through telephone) related to service innovations with 1300 service providers, from 17 states including USA, Canada and 15 European states

² According to the Texas University, 30 % response is sufficient and valid percentage in an online survey to extract the necessary information (Texas University, 2007).

Information Technology cluster, Business Advisory Cluster and Other Service Providers³.

Research Limitations: Given that the survey was conducted online, there was a limited possibility for online explanations to respondents experiencing problems while filling in the questionnaire. Moreover, sometimes Google survey tools were not that efficient. Resulting with low response rate but sufficient to extract and analyze the data.

3. Theoretical framework

3.1. Modes of innovations and customers' interaction

Service is an intangible activity or performance that one party offers to another, which does not result with ownership (Kotler and Keller, 2012). According to Moeller (2010), services are characterized with its: *intangibility* because are not physical; *heterogeneity* because each service is different in nature; *inseparability* of the production from the consumption; and *perishability* addresses the capacity aspects because services do not have expiry date. These characteristics make services unique compared to products, as such service innovation has different modes of innovation compared product innovation.

Hendersen and Clark (1990) defined innovation modes based on two dimensions, the horizontal dimension which defines the impact of innovation in components and vertical dimension which defines the impact of innovation on relations between components. Thereby introduced the framework for defining 4 innovation modes which are: *radical innovations*; *incremental innovations*; *architectural innovations*; *modular innovation*.

Later Gallouj and Weinstein (1997 cited in Gremyr, et al., 2014) based on service characteristics and on previous framework defined by Henderson and Clark (1990) presented six modes of innovation which are:

Radical innovation - happens when there are changes in both components and linkages between components and concepts (Hendersen and Clark, 1990). This includes changes in the entire service system and major changes several service characteristics (Gremyr, et al., 2014).

Improvement innovation - occurs when there are qualitative improvement in some elements of service characteristic without changing the service system.

³ Other service provider comprises of sectors that received less than two responses.

Incremental innovation - refines the design by adding, removing or substituting new characteristics but the core design concepts of a service remain the same (Hendersen and Clark, 1990; Gremyr, et al., 2014).

Formalized innovation - standardizes or formalizes one or more service characteristics and innovation processes (Gallouj and Weinstein, 1997, cited by Gremyr, et al., 2014).

Ad hoc innovation - occurs when the company adapts service characteristics to respond to specific customers programs and needs (Schumpeter, 1974 cited by Gremyr, et al., 2014).

Recombined innovation - combines characteristics of one or more services or separates characteristics of existing services (Gallouj and Savona 2009, cited by Gremyr, et al., 2014)

On the other hand Utterback (1994, cited by Lowe and Marriott, 2006) defined modes of innovations based upon the space where the innovation occurs, that are:

Product innovation - when there are changes in the physical offering of the company.

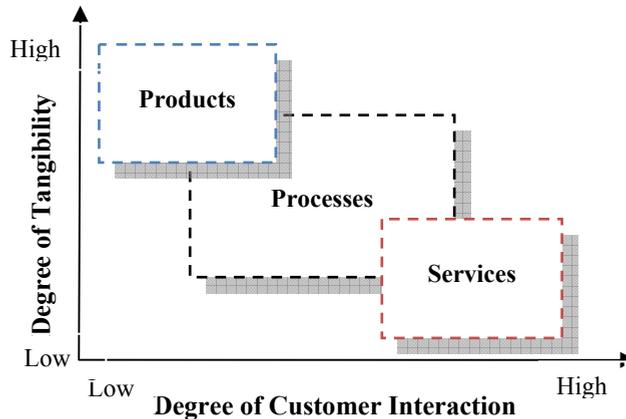
Process innovation - specifies changes in the way how the offering is created, communicated and delivered to the customer.

Position innovation - states changes in the context in which the offering is introduced.

Paradigm innovation - occurs when changes happen in the mental model of the company.

Services innovations are defined from different perspectives, but for the purpose of this paper will be used O'Sullivan and Dooley (2008) model. According to them the innovation modes are defined based on tangibility of the offer and the degree of interaction between company and customer, into Product, Process and Service Innovation.

Figure 1: Innovation modes based on tangibility and customer interaction



Source: (O'Sullivan and Dooley, 2008)

Product Innovation relates to physical changes in the product that may include incremental improvements, recombination innovation, radical and ad hoc innovation (Wheelwright and Clark, 1992 cited by (O'Sullivan and Dooley, 2008).

Process Innovation refers to the set of new or improved activities designed to transform inputs into a specific offering for customer. The process innovation relates to formalized innovation that includes new or improved methods of production, communication and delivery of the offering to the end user. It relates to all activities that create and deliver value to end user including procurement, inbound and outbound logistics, production, marketing and sales and services (O'Sullivan and Dooley, 2008).

Service Innovation relates to changes in the manner how companies interact and provide solution to customers' problems. According to O'Sullivan and Dooley (2008) services have a high degree of customer interaction and low degree of tangibility of the offering, which are defined as a sequence of value creating activities for and with customers.

O'Sullivan and Dooley (2008) presented three types of service operation that include:

- Quasi-manufacturing services (i.e. warehouses, logistics, maintenance, testing labs, recycling, repairmen etc)

- Mixed services (i.e. banks, insurance, touristic agencies, beauty salon, IT etc)
- Pure services (i.e. hospitals. schools, hairdresser, advisory etc)

Although in the above text were presented different theories of the innovation modes. For the purpose of this paper, will be used the service innovation mode as presented by O'Sullivan and Dooley (2008), because it relates to the service characteristics and customers interaction and involvement in the innovation process.

3.2. Customer impact in service innovation vs. innovation impact in customer demand

New technological and non-technological inventions are not innovations if not explored to address and fulfill customers' needs, and commercialized to profit the company (Lowe and Marriott, 2006; O'Sullivan and Dooley, 2008).

As indicated above service innovation differs from product innovation because of their unique characteristics. Since services are intangible, the innovations in services cannot be seen or touched but can be experienced. Hence, the quality of the service depends on a person that delivers the service (heterogeneity). Service innovations are produced and consumed at the same time, and cannot be stored away to be used later. In many states services are not patented, hence can be easily copied. This presents a degree of insecurity to the company and acquires additional effort to manage the innovation.

In general service innovation is more than just product innovation. It requires new ways to creating and delivering value to meet customer needs and stimulating their interest to pay for and use the specific service (O'Sullivan and Dooley, 2008; Jimenez-Zarko, et al., 2009; OECD, n.d.)

According to DTI Occasional Paper⁴ (2007) research, companies are hesitant to invest in innovation due to high cost or risk of innovation (56 percent). Besides innovations are seen as unnecessary (51 percent) given that customers' unresponsiveness (55 percent) to utilize new services and unwillingness or inability to pay for innovations (58%), which may be as a result of customers' reluctance to experiment with untested service.

⁴ A survey aimed to explore basic characteristics related to pattern of innovation within variety of service innovation within eight dimensions. The survey was conducted with 1007 service firms in EU countries.

Thus, to reduce the risk of investing in the NSD and stimulate customer demand so that innovations are accepted without hesitation, service providers should have market oriented approach (Jimenez-Zarko, et al., 2009; Chesbrough, 2011). In this way service providers can understand the latent and expressed needs of customers (Kotler and Keller, 2012); coordinate all resources to create competitive advantage for the company and deliver greater value for customers (Kahn 2001 cited by Jimenez-Zarko, et al., 2009).

Companies also conduct market research to assess how new services are accepted by the market. However, sometimes the results from the market research may be disorienting when innovations are concerned, since customers are not aware of benefits that new service present (Fey and Rivin, 2005). But if companies cooperate with customers' to co-create and develop new services, and explore the opportunities effectively the results of innovation will be evident (Chesbrough, 2011).

According to Bhalla (2011), companies have to *Listen-Engage-Respond* to identify customer needs and co-create added value (tangible or intangible) and to stimulate willingness to pay for and try new service (Lowe and Marriott, 2006).

Although it was proven that customers' involvement in new service creation is an indicator of success, Jimenez-Zarko's, et al. (2009) point out that only 27.2% of 433 interviewed service providers have involved their customers in service development. "Open service innovators" are seen as constitutional part of the company in the service designing and development processes. (Chesbrough, 2011). Through which the company will reduce the cost of market research and service and/or product design by understanding customers' hidden needs (tacit information) and perception about the specific offering. Moreover by utilizing customers' knowledge and assistance in product co-design and co-creation, the company will be able to reduce the innovation cost, accelerate the time of introducing the service into the market, and stimulating the customers' interest and willingness to pay for a service.

It is against this background to say that "innovating today requires to be open" (Chesbrough, 2011) and collaborative with customers, in order to compete in a very dynamic and competitive environment.

3.3. How to market service innovation

To market innovations companies need to understand the uniqueness of services compared to products. Services cannot be produced in advanced, stored or tested in advance, thus services are consumed at the same time when produced (Chesbrough, 2011). Moreover, service quality does not depend on raw material (as per products) it depends on the peoples' capabilities to provide the service (Kashani, et al., 2005, p. 108). Services cannot be returned back, if the company fails to deliver. If a customer has a bad experience with a specific service the company risks losing the reputation, credibility, and customer base.

The question arises what should marketing managers do to ensure quality in service provisioning?

According to Kashani, et al. (2005, p. 110-118) marketing services and service innovations, requires packing the "intangible" into "tangible" through brand communication; by offering service guarantee; by packaging the service to look like a product; and under promising to over deliver.

By selling a service the marketer is selling a promise of company's capability to deliver to over customers' expectation and satisfaction (Kashani, et al., 2005). Considering, service characteristics the most appropriate selling methods are indirect marketing methods which include recommendations from customers; testimonials; co-marketing with customers; public relations and publications; buzz-word only when the company has something to offer, etc Kashani, et al., 2005, p. 123-128)

Delivering upon promise means ensuring service quality to highest standards. In this regard Berry, Parasuraman, and Zeithaml (cited by Kotler and Keller, 2012, p. 373) presented 10 essential recommendations to improve and ensure service quality which are: listening to the customer need; being reliable; delivering on the basic service; considering the service design; satisfying and surprising the customer; playing as a team and fairly; have a servant leadership; and conduct a research to real why service problems occur and how to solve them.

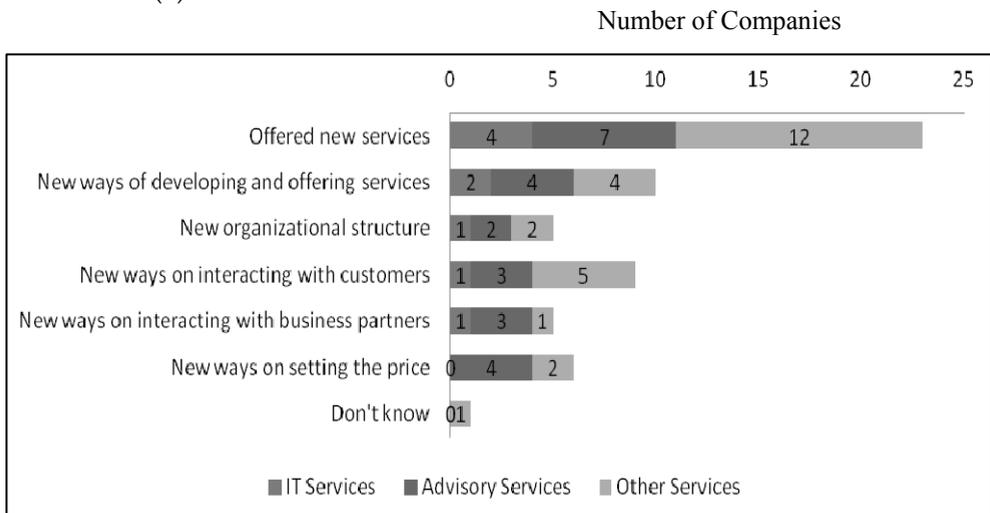
4. Findings

The findings from the research will be looked from the angle on how customers impacted service innovation and changed service providers' approach towards new service development, at the same time presenting the main barriers to service innovation.

4.1. General findings

The finding from the research indicate that out of 59 valid responses⁵, 54.3 percent offer pure services, of which 15.3 percent are IT services (IT), and 39 percent Advisory/Consultancy services (AS), and the remaining 45.7 percent are Other services (OT) that provide mixed/quasi-manufacturing service providers. More than half respondents are registered as individual businesses (IB) and have less than 10 employees, meaning that the organizational hierarchy does not present a barrier for service innovation.

Figure 2: Changes in processes, services (Y) that are reported by three clusters (x)



Source: Author's findings based on research on Service Industry in Kosovo

⁵ There were 61 responses, 2 responses were invalidated because partners from the same organization filled in the questionnaire.

In general, 39 percent of services providers reported that are offering new services and 17 percent have changed their ways to developing and offering services and whilst 15 percent changes their ways of interacting with customers; fewer changes in the organizational structure and interaction with other businesses.

The results indicate that service providers understand the importance of being innovative by offering new service but not that aware of customers' role in this regard, since only 15 percent of them reported changes in the ways to interacting with customers.

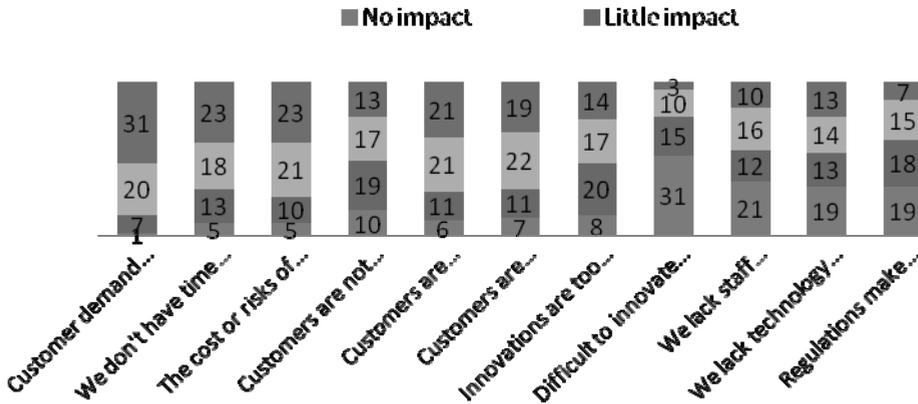
4.2. Barriers impacting innovation in service industry

The main barriers for service innovation which resulted from the research are categorized in three groups, barriers related to customer demand, capability of the company and other barriers.

The barriers related to customer demand present customers' impact to service innovation. The results from the research with Kosovo service providers indicate that the main barrier hindering service innovation is customer demand (86 percent). This is reflected mostly at the AS and OT cluster. Moreover, service providers claimed that customers' inability (71 percent) and unwillingness to pay for new service (69 percent), and customers' unresponsiveness to new service (51 percent) have a grave impact in the their (in)ability to innovate whilst making innovation unnecessary.

Hence, to stimulate customer demand and willingness to pay, 68 percent of respondents reported that involving customers depending on the service, 19 percent of them always involve customers, whilst 12 percent of them involve customers sometimes. The findings indicate that service providers in Kosovo to a certain extent understand the importance of customer demand and customerized offering (59.3 percent). However there is room for improvement considering the fact that 56 percent service providers offer standardized/combined services, whilst 44 percent provide services as per customer requirement.

Figure 3: Barriers impacting new service development in the service industry



Source: Author's findings based on research on Service Industry in Kosovo

Barriers related to service providers' ability to innovate – due to business structure and size, whereas over 54 percent are IB and over 52 percent have less than 10 employees, over 69 percent of respondents claimed they lack time to innovate or develop new service, out of which 66 percent are from IT, 74 percent are from AS, and 66 percent are from OT cluster. On the other hand, small business size and structure of the Kosovo's firms offers more flexible and favorable environment for innovation, compared to rigid structures of large corporation in European Union (EU), whereas 38 percent of all respondents⁶ from Howells and Tether (2004, p 119) survey indicated that organizational structure hampers innovation capabilities.

In addition cost or risk of designing and developing new service is considered as an impediment by 75 percent of Kosovo respondents out of which 77 percent are IT, 69 percent are AS and 77 percent are OT. The same impediment was noted by 79 percent service providers in EU countries (Howells and Tether, 2004).

⁶ The survey was conducted by Howell and Tether with 1300 service providers of four sectors throughout 17 EU countries.

Moreover, 44 percent of service providers in Kosovo and 62 percent EU service providers consider of high importance to have adequate staff to innovate (Howells and Tether, 2004).

On the other hand 54 percent of service providers in Kosovo, claim they don't lack necessary technology to innovate, out of which 77 percent are from IT, 60 percent are from AS, and 37 percent are from OT. As results point out lack of technology is seen bigger problem for OT cluster then for IT or AS clusters.

In general the research indicates that service innovation encompasses broader specter then just acceptance of new technology; it requires capable employees to utilize the technology. Thus staff training is considered as an important component to increasing the quality of service provisioning by 90 percent of service providers. In this way service providers will be able to deliver on promise and address the needs of their customers to certain level of satisfaction.

Other factors – 53 percent of Kosovo service providers and 49 percent of EU service providers consider that innovations are too easily copied from competition hence the risk of innovation is very high. Besides considering customers' unwillingness to pay for and experiment with new service, the risk of innovation is higher.

Another barrier to innovation are state regulations which is lesser barrier for Kosovo service providers (37 percent) but very serious barrier for EU service provider (88 percent) who also have very rigid procedures to innovation.

5. Conclusion

In general the paper emphasizes customers' impact in innovation and in service providers' approach toward this process.

Firstly, it can be concluded that service providers in Kosovo to some extent understand the importance of assessing customers' demand; and the necessity of involving customers into service design and development process. However there is always a room for improvement since more than 50 percent of Kosovo service providers offer standardized and combined services.

Secondly, services providers are reluctant to develop new services due to high cost or risk related to developing new service and customers' unwillingness and inability to pay for and bear the cost of new service

development. Given that services are intangible and service innovation cannot be tested in advance, impacts customer perception and readiness to accept a new service.

This directly impacts service provider's interest to innovate, thus seeing innovations as not necessary. But also impacting their ways to innovating by identifying needs and involving customers in all NSD processes.

Thirdly, service providers in Kosovo are aware of employees' role and importance for providing qualitative services thus consider investment in training employees as much important as investing in new technology.

Therefore to stimulate customer interest and willingness to pay for a new service, providers have to ensure service quality by using Kotler and Keller (2012, p 373) service-quality model and bear in mind five determinants in the order of the importance.

Be reliable - have the ability to deliver on the promised service in the right time and place;

Be responsive - be willing to assist customers and provide service as per their request;

Provide assurance - have trained employees who convey trust and confidence;

Be empathic - ensure customers that behind service provider is a company that provides individualized attention to customers; and

Ensure physical evidence - the appearance of the office, personnel should be professional and representative. Communications should be unified in line with mission and policies of the company.

Considering that service industry is quite new in Kosovo, this research provides starting point for more extended research (interview based) with customers in identifying their views and perceptions related to the quality of services in the service industry in Kosovo and in depth research related to explore service providers innovation process, if they have formalized innovation process or innovations are in ad-hoc basis.

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