

The involvement of customers in financial services

Dieter De Smet, CRP Henri Tudor, Luxembourg

Anne-Laure Mention, CRP Henri Tudor, Luxembourg

Marko Torkkeli, Lappeenranta University of Technology, Finland

Innovation for Financial Services

October 17, 2014

Montréal, Canada

Introduction

Customers can serve as a critical source of external information and knowledge (von Hippel, 1986; Laursen, 2011; Greer and Lei, 2012; West and Bogers, 2014)

Customers are important for the co-creation of new services (Normann and Ramirez, 1993; Normann, 2001; Vargo and Lusch, 2004; Vargo et al. 2008)

Customers are important sources of innovation in knowledge intensive services (de Jong and Vermeulen, 2003), **such as financial services** (Schricke et al. 2012)

Introduction

Financial services companies are intensive users of external knowledge from various sources (Hollenstein, 2003) and customers play an important role in developing innovations in general (Bindaroo et al. 2012) but also within the financial services sector (Pallister et al. 2007)

Tapping into customer's their innovation information (Bogers et al. 2010) is done through the process of absorptive capacity (Cohen and Levinthal, 1990; Zahra and George, 2002; Tu et al. 2006; Lane et al. 2006)

Introduction

External environment needs to be considered for enhancing internal innovation activities and investments into new service development. External cooperation for innovation can lead to competitive advantage (Tether, 2002)

Scholars also argue that the innovation process in every industry is different due to its structural characteristics and industry specificities (Castellacci, 2008; Fraga et al., 2008)

Internal R&D investments (e.g. marketing research, software development, trainings, ...) are not the only source of information and knowledge for the company's innovation activities, the external sources can play an even bigger role (Tether and Tajar, 2008)

Introduction

Too much reliance on the external sources will insufficiently foster the development of know-how and experience to implement and develop innovation (Shefer and Frenkel, 2005; Cassiman and Veugelers, 2006)

Other research indicates that innovation performance increases over time as the company invests more in research and development (Crepon et al., 1998; Zhao et al., 2005)

Having a mix of innovation sources is important since innovation is always involving risk and companies can have mitigate these by opting for a combination of internal and external elements (Leiponen and Helfat, 2010)

Typologies for external information sourcing

Most list four groups of sources (Laursen and Salter, 2006):

- **Market** (suppliers, competitors, consultants, customers, commercial R&D)
- **Institutional** (university, government, research organisations)
- **Specialised** (technical standards, regulations, health and safety)
- **Other** (trade fairs, associations, technical press, conferences)

Typologies for external information sourcing

Other classifications (Mention, 2011):

- **Market-based cooperation** (i.e. “vertical cooperation agreements”)
- **Science-based cooperation** (e.g. universities, research centres, private laboratories)
- **Co-opetition** (i.e. cost/risk sharing with competitors competitors)
- **Intra-group cooperation** (e.g. knowledge spill-overs or exploit internal knowledge and efforts)

Empirical setting

Grand Duchy of Luxembourg



Empirical setting

Luxembourg offers a unique setting for financial services:

- **R&D investments in financial services tripled between 2003 and 2007** (European Commission, 2013)
- **Private R&D investments in financial services amounted to 23% compared to 30% for “other services”** (European Commission, 2013)
- **Financial services are knowledge-intensive business services** (Schricke et al. 2012)

Empirical setting

Luxembourg offers a unique setting for financial services:

- **Employment in knowledge-intensive activities (25%) is the highest of all EU Member States and nearly the double of the EU average (European Commission, 2013)**
- **The share of knowledge-intensive services in export is also the highest of all EU Member States (European Commission, 2013)**
- **Due to a very strong specialisation in financial services which has been a growth engine since 1980s (European Commission, 2013)**

Empirical setting

Financial services sector in Luxembourg is also atypical:

- **Represents about 68% of the entire cross-border market for European fund distribution (e.g. Ireland accounts for 18%) (Luxembourg for Finance, 2014)**
- **Accounts for about 32% of the European market for assets under management (e.g. Ireland accounts for 15%) (Luxembourg for Finance, 2014)**
- **About 75% of the employees' nationality is foreign**

Empirical setting

Financial services sector in Luxembourg is also atypical
(Luxembourg for Finance, 2010)

- **Contribution to Gross Domestic Product (GDP): 38%**
- **Part of the national job market: 17%**
- **Fiscal revenues: 30%**
- **Amount of banks: 149**

Survey



INNOVATION
FOR
FinancialServices

25 multiple choice questions which were aggregated further into five parts:

- **The sources of information for innovation activities**
- **The outputs of these innovation activities**
- **The cooperation for innovation**
- **The role of customers in new service development**
- **General and economic data about the company.**

Survey

Response rate of 24% of the total population (n=25)

The response rate is fair and useable because:

- (1) the sample is representative of the Luxembourg financial services sector
- (2) it falls within the normal range of response rates for research where companies are contacted
- (3) it falls within the normal range when leadership/executive layers of companies are contacted

Survey



INNOVATION
FOR
FinancialServices

The number of employees represented by the respondents in our sample amounts to 11.300 employees and our sample covers 42% of the total population in this sector

The response rate as such is not more important than the response representativeness (Cook et al., 2000)

Accessing top executives is known to have a lower response rate, the median response rate of executives was found to be 32% with an interquartile range of 20%- 46% (Cycyota and Harrison, 2006)

Survey results



A significant association between the provision of deposit services and consultants was found ($\phi C = 0,5164$)

Consultants were reported to be specialist knowledge providers, especially in the (financial) services sector (Tether and Tajar, 2008; Weigelt and Sarkar, 2009)

Additionally consultants were found to be associated to bank deposits services in Luxembourg financial services companies ($\phi C = 0,6325$), further indicating that this group is likely to be important

Survey results



INNOVATION
FOR
FinancialServices

**The back stage employees (i.e. support for front line employees)
with Cramér's $V = 0,4797$**

**The CEO emerged as relevant but with a lower significance level
(90% significance level and $\phi_C = 0,4940$)**

**The benefit of a better controlled dependence due to working with
external partners for new or significantly improved services is
associated with bank deposit services ($\phi_C = 0,5189$)**

Survey results



INNOVATION
FOR
Financial Services

Respondents who have a dedicated NSD process for a given customer are associated with new to the market innovations ($\phi C = 0,5819$)

Demanding customers are associated with the introduction of new to the market services ($\phi C = 0,5241$), coupled with previous findings and further showing the research interest for customer involvement within Luxembourg

Customers also asking tailored services, niche customers are also associated with new to the market innovations ($\phi C = 0,4603$)

Survey results



INNOVATION
FOR
FinancialServices

Customers with higher purchasing power are associated with new to the market services ($\phi C = 0,4839$)

Regarding the type of customers, the HNWI ($\phi C = 0.4583$) and to a lesser extent SMEs and large customers were found to be associated to the provision of bank deposit services

Research contributions

Service innovations are understudied (Edvardsson et al. 2013; Ordanini and Parasuraman, 2011) **and especially financial services** (Gianiodis et al. 2014; Mention and Torkkeli, 2012)

The role of customers in the development of new financial services and their co-creation is not extensively researched (Akamavi, 2005; Martovoy and Dos Santos, 2012; Oliveira and von Hippel, 2011)

Academic implications

Insights into the specific structures, policies or processes of absorptive capacity also represent interesting venues of new research (Lane et al. 2006)

Further research could use longitudinal case studies in financial services companies

- **to get more detailed insights on how learning and customer involvement occurs**
- **how financial services companies realize service innovations through their organisational learning mechanisms**
- **develop and use absorptive capacity**

Managerial implications

Dedicated vision and strategy are needed for new service innovation

Customer involvement for accessing their innovation-related knowledge requires a dedicated teams for doing so

Managers can decide upon the various practices to be used, created or modified since they are linked to the organisational learning that will make absorbing customer information and (external cooperation in general) more effective

Q & A

dieter.desmet@tudor.lu
anne-laure.mention@tudor.lu
marko.torkkeli@lut.fi

Innovation for Financial Services
October 17, 2014
Montréal, Canada