# Innovation as a Determinant for Service Excellence in Banking

Dima Al Eisawi, Harjit Sekhon, and Sailesh Tanna

*Abstract*—**This paper examines what banks must do in order to provide superior services. The on-going research related to the current paper demonstrates that service excellence in the UK banking sector is comprised of a multiple set of integrated antecedents. However, due to its theoretical and practical importance, and further to its established linkage with service excellence, the current paper exclusively focuses on providing a review of innovation within the UK banking sector. The findings presented in this paper are based on a larger scale survey (n=260) of retail banking customers in the UK. Data was analysed utilising on Structural Equation Modeling, indicating significant impact of innovation on the delivery of service excellence.**

*Index Terms*—**Banking, financial services, innovation, service excellence.**

## I. Introduction

There are several characteristics that differentiate the UK banking sector, as per numerous research (Tanna *et al*. 2008). Yet, three characteristics are prominent. Firstly, the market is concentrated with many players, most noticeably in the retail sector (Miller *et al*. 2011). According to the Independent Commission on Banking (ICB 2010), there are around 340 banks in the UK mostly concentrated in the retail and commercial banking sector. This is further evident by the top six retail banks which account for 88% of retail deposits (ICB 2010:9). Secondly, there are many universal banks which resemble the key players in the market (Miller *et al*. 2011). Thirdly, a network of banking providers exist comprised of banks and non-bank service providers (Farquhar and Panther 2008). Other distinguishing traits prior to the financial crisis include the growth of measurable value added, specifically profits, in addition to the remarkable growth of the balance sheets (Miller *et al*. 2011). This is evident in the UK retail banking's large contribution to the GDP and to the UK national income (Haldane *et al*. 2010).

One of the most significant elements for the success of banks is service excellence (Islam and Ali 2011). Research findings by (Lymperopoulos *et al*. 2006) prove that judgments formed by customers about the overall excellence of banks, are key to gain competitive advantage because it consists of the main choice criterion for customers in establishing a vigorous relationship with the bank via prolonged services, such as mortgage loans. This presents a window of opportunity on the basis that maintaining service excellence is a vital component to develop profitable long-term customer relationships.

In spite of its importance, evaluating bank service excellence might be seen as a complex process, primarily because it is a service, and services are intangible, which prevents evaluation before an interface or an encounter. This is further demanding knowing that there is no publicly recognised and standard measurement instrument to assess the perceived excellence of bank services (Bahia and Nantel 2000). Indeed, the available measurement scales are either developed by specific banks exclusively, or are developed to measure service quality in different services organisational settings, in general. Therefore a series of research by the authors, related to this paper aim to identify key predictors of service excellence based on an evaluation of the UK banking sector.

## II. Innovation and Service Excellence

A possible antecedent to excellent services is simply extending the level of services beyond the normal expectations of customers, or the ability to regularly surprise customers in order to remain a service leader in the industry. This constant emphasis of surprising customers by exceeding their expectations is a common theme in much of the services literature. For example, Berry (1995), calls it the service surprise, while Wirtz and Johnston (2003) refer to it by the wow effect. Alternatively, Johnston (2004) calls it going on the extra mile. In this paper, this constant exceeding of expectations, is referred to by innovation, because innovation is a broader concept that has been well established in the literature. It also refers to internally anticipating customer needs, while externally anticipating organisational and environmental changes.

In the services marketing sense, delivering excellent services is possible by offering distinctive services compared to the competition. Such superior service will trigger customer loyalty and retention, which in turn can provide the basis of sustained competitive advantage and improved business performance (Bejou and Ennew 1997). This is particularly vital for the banking industry, because for the most part, banks offer relatively the same services. Retail banking products are homogeneous, which obliges customer service excellence to be counted during the analysis of competitive strategies (Avkiran 1994). Long- term relationships that customers have with their banks, bring more personal contact and imply the formation of better perceptions of excellence (Bejou and Ennew 1997). In addition, meeting customers' expectations is not enough anymore in banks, it is exceeding expectations that counts the most (Teixeira and Siskin 1992).

Manuscript received May 1, 2012; revised July 6, 2012.
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DOI: 10.7763/IJEEEE.2012.V2.141

Hence, offering excellent services by meeting client needs and providing innovative products are essential to succeed in the banking industry (Camarero 2007). This also explains why the banking industry is shifting its focus from one solely accustomed to servicing clients, to one committed to assisting clients with all of their financial needs (Brown and Kleiner 1997). Such personal attention, by viewing the world through customers' eyes, helps maintain customer satisfaction (Brown and Kleiner 1997; Cohen *et al*. 2007). This would suggest investigating why customers would welcome innovative solutions.

Bodie and Merton (2000) suggest that although banks and financial organisations are service oriented, they still have products such as, investment instruments including stocks, bonds, bank deposits, and lending instruments such as loans and credit cards. This nature offers space for either innovation to fit individual's financial needs and preferences. Athanassopoulos *et al*. (2001) empirically studied the behavioural responses to customer satisfaction in banks. They considered that product innovation simply reflects four items, namely, offering a wide product variety, offering flexible products that meet customer needs, new products offerings meeting customer needs and offering telephone services. Moreover, Adamson *et al*. (2003) emphasised the importance of banking excellence, meeting customer needs and offering innovative products. Nevertheless, they remind of the importance of balancing the high costs associated with service excellence initiatives and sustaining acceptable profits. Jiang (2000) offered a way that could be looked into in order to derive customers' perceived value, by providing tailored products and the tailoring process. Due to the information intensive nature of the financial services industry, the primary component in the tailoring process is information personalisation, which includes financial consultation and financial content delivery, which may include financial advice or personalised transaction services. Yet, services are largely intangible, therefore, it is difficult for the providers to explain and difficult for the customers to assess before buying. This places special demands on the marketing of a service to avoid the formation of inaccurate and unrealistic expectations, taking into consideration that one aspect of service integrity is to give only promises which the service provider is capable of fulfilling (Evardsson 1994).

Innovation is obviously important in the recent banking research, this consideration for the customer and anticipation of their future needs has become one of the leading concepts in business excellence (Kandampully and Duddy 1999). The literature supports that perceived service excellence, is a significant construct for the success of recent banking business. Knowing that service excellence is of great value, a bank is able to differentiate from competition on the basis of customers' selection criteria, by attracting new customers and building effective long term relationships with them. This leads to gaining remarkable competitive advantage (Lymperopoulos *et al*. 2006).

## III. Methodology

As part of a larger scale development procedure we addressed a wider range of constructs, in addition to innovation. This was based on a developing a set of well-established items, whereby the research constructs was measured by a fairly compact set of indicators. A total of 260 questionnaires were collected from retail banking customers in the UK, based on purposive sampling. Customers were requested to answer 17 questions, which were rated on a 5 point-Likert scale, where (1) represented Strongly Disagree and (5) Strongly Agree. The questionnaire took place from October 2010 until February 2011 in the UK. The research instrument was designed based on an extensive review of the literature, qualitative semi-structured interviews and a review from a panel of expert judges. Three of the questions related to innovation and 5 related to service excellence. The remaining 11 questions related to the other determinants of service excellence, currently still being under investigation in particular: rates, reputation, technology and excellent employees. The 3 innovation related questions addressed the following items, which were selected, refined and developed from a pool of items developed by the authors:

1) Bank provides reliable and effective remote banking services
2) Products are continually updated
3) Flexible products that meet customer needs

Data was analysed using statistical software package PASW 18.0 and Structural Equation Modeling (SEM) with AMOS 18.0.

## IV. Findings

Reliability analysis for the innovation scale yielded a good value of Cronbach Alpha (Pallant 2005) equal to .732. Further, comparing the demographic data indicated no significant differences between the groups.

The results of the Confirmatory Factor Analysis demonstrated reasonable support of validity. Fit statistics, the magnitudes of the standardised loadings, and t-tests values greater than twice their standard error (Anderson and Gerbing 1988), provided support for convergence of items with their respective underlying dimensions. In addition, by meeting acceptable levels of the average variances extracted, high levels of convergence among the items in measuring their respective constructs were secured (Gounaris and Dimitriadis 2003). Pair wise CFA of the dimensions was considered an indicator for the scale's discriminant validity (Anderson and Gerbing 1988).

SEM has revealed that customers assign perceptions towards the provided banking services. These perceptions are correlated to the distinctive innovative offerings of banks. As such, nomological validity was met by conducting path analysis for hypothesis testing. The purpose was to check if the developed scale performs as expected with respect to some other constructs to which it was theoretically related (Churchill 1995).

All innovation related items were positively related to innovation, according to the values of their beta paths, TABLE I. However, the strongest relationship amongst all paths was between innovation and (My bank offers flexible products that meet my needs) with a value of .754. This was followed by (Products are continually updated) and (bank provides reliable and effective remote banking services), with path coefficients of .733 and .664, respectively. Hence, the research findings lend support to the hypothesis that innovation, is to a large extent, a determinant of service excellence.

TABLE I: "STANDARDISED REGRESSION WEIGHTS"

| ***Path*** | | | ***Estimate*** |
|---|---|---|---|
| Innovation | → | Products are continually updated | .733 |
| Innovation | → | My bank offers flexible products that meet my needs | .754 |
| Innovation | → | My bank provides reliable and effective remote banking services | .664 |

## V. CONCLUSION

Evidence calls for considering innovation as a significant determinant for service excellence. This paper suggests that in order for banks to provide innovative services they need to be reliable, provide flexible products, and continually update their products. However, this should be combined with other antecedents including appropriate rates, technological advancements, reputation, and excellent employees.

Practical implications include considering innovation as a crucial factor while developing marketing strategies. This should enable banks achieve excellent services, which leads to differentiating the service offerings. A limitation of the current research is the generalizability of the findings across various services industries versus the focus on one service, namely banking. Therefore, future research will attempt to assess the significance of innovation across other services settings, and utilising on a holistic validated scale. Furthermore, a complementary step would be to apply the current research within Islamic banking settings, in contrast to the findings from the current research which focuses on conventional retail banking.

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