

## SUCCESS FACTORS IN NEW BANKING SERVICES DEVELOPMENT IN IRAN

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### ABSTRACT

This paper reports on findings of a study which collected information from the chosen seven big banks in Islamic Republic of Iran to understand the key success factors of new service development in banking industry. The study is a survey research. It reveals that technical, market research, promotion skills, and access to on time information have the highest impact on new banking services development success. The study concluded that key success factors of new banking services development are: product development process, innovative services, organizational characteristics, customer attitude, market and competitors, skills and these consist of components that revealed from exploratory factor analysis.

**Keywords:** new product development, new service development, banking

**JEL Codes:** M13, M39

### I. INTRODUCTION

In a market economy, developing and introducing new product is essential for organization's survival (Oldenboom and Abratt, 2000, Ragot, 1994) and increased capabilities of new products and services become more important for companies (Scott, 1999). Many new products ultimately fail in the marketplace and result in massive financial losses (Urban and Hauser, 1993). While 70 percent of the new product costs are

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allocated to products that fail, there are studies that suggest the main results of the new products are under the Administrative control (Cooper, 1979).

Over the past three decades, much literature has focused on North America (for example Cooper 1979, DeBrentani and Cooper 1992, DeBrentani 1995) so it seems to be fruitful to consider it in Iran. In spite of the increasing importance of service sector in the economy, the literature associated with success and failure of new services is very low and the most is based on production surveys (DeBrentani and Cooper 1992). Although initial research shows that producers of goods and services are focused on similar activities to improve performance (Edget& Jones,1991; Scheuing &Johnson,1989; Shostack,1977) the service development process cannot be comply exactly with the production process of goods. This is Because of fundamental distinctions that exist in service features and cause need to different marketing strategies for services (Atuahene-Gima,1996). In early studies of product development, there was more focus on developed product than product development process. In the 1970s, it became broader and new product development processes were included as well (Cooper, 1979). Product development activities usually organized as a "project" and managed by three well-known components of the project; product performance, cost and time. In product development, the components of the project considered as product performance, speed to market and development costs. Each of these components is affected by the product development process. Many studies describe the key factors in the product development process as: multifunctional teams, senior management support and organizational support (Hart &Service,1993; Hwand,2004; Lester,1998).

This study deals with that which factors have direct impact on the success or failure of a service and this question will be investigate in this study: what is the key success factors of new banking services development?

## II. LITERATURE REVIEW

### A. Products and services differences

There has been a question whether the activities in new service development process are different from goods significantly? (Atuahene-Gima,1996) Although early research suggests that producers of goods and services focus on the same development activities to improve performance, but their development processes cannot be matched exactly because of the basic differences lies in the characteristics of services. Thus services will require different marketing strategies (Shostack, 1984)

Four fundamental differences distinguishing services from goods are:

1. Intangibility of services: indicate the fact that service has conceptual nature. Intangibility has 2 meaning both of them are marketing pitfalls: incapable of being touched, cannot be defined or formulated (Webster's dictionary)  
.intangibility increases complexity of service development because it makes

organizations to deal with conceptual subjects such as emotions and reliability. So intangibility is a challenge for successful service launch (DeBrentani, 1995).

2. Simultaneously: means that services be produced and consumed almost simultaneously. Having equipment to simplify, educate front line personnel are examples of functions that a manager should do to overcome simultaneously problems and increase customer satisfaction.
3. Heterogeneity: Because the impact of people (employees or consumers) on the production and delivery process, a potential for high variability exists in performance and perceived quality of a service (Gronroos 1990).
4. Perish ability: because of intangible nature of services, their production can only occur at the time they are consumed. Services cannot be stored like goods (Gronroos, 1990). perish ability can lead to capacity and production-efficiency problem so it increases costs for unused capital and human resources (deBrentani 1995).

In Nambisan (2003) differences between NPD and NSD was investigated. It showed that there is synergy between goods and services but there are many differences in creating and providing value, different models of demand and decision frameworks.

## **B. Key success factors of New product development**

Researchers believe that there are many important components in new product development but the most common characteristics of successful organizations in the process of new products introduction are: multifunctional teams for product development, management support and a supportive organizational structure. Participatory approach that uses multifunctional teams noted as the most important factor in development process improvement (Hart and Service, 1993). Multifunctional teams are very applicable in the industry to solve complex issues such as challenges of new products development (Sethi, 2000; Ulrich & Eppinger, 2000). Management of Multifunctional teams is usually more difficult, but the composition of their skills will help to solve obscure problems. Communication within and between Multifunctional teams is a critical issue that is important for high performance (Connell et al, 2001). The commitment of senior managers also mentioned as an important component for successful product development (Cooper, 1979; Lester, 1998; Connell et al, 2001).

Further research showed that management support improves project team performance, means when the team gets political, emotional and financial support the time for key decision makings will be reduced (Zahra & Ellor, 1993).

Managerial planning and supervision will ensure about financial and human resources and offer a criterion for product or service evaluation (Raymond & Ellis, 1993).

Many studies report that a proper organizational structure must be in place to support successful new product development (Cooper, 1979; Lester, 1998; Hwand, 2004). Additional research found support by top executives is important to a successful project, but the organizational structure may be more important because it has a continuous daily

influence on the team and mediates the environmental factors in which the team operates (Papadakis & Burantas, 1998). Communication is a key factor both within the team and between the team and the others, including management, suppliers and the customers and is aided greatly by an appropriate organizational structure (Wotruba & Rochford, 1995). Research has been shifting from the products under development to the processes that develop products and formalizing those processes to improve product development (Wotruba & Rochford, 1995). The proper supportive organizational structure may lead to a formal product development process defined as having a well-documented process where managers are able to reference and furnish documentation that they are following the process (Griffin & Page, 1993). Progress is documented as project teams process through the development process. Attention to process characteristics and the influence of these factors on successful launches of new products is increasing (Wotruba & Rochford, 1995).

### C. Key success factors of new service development

Although in the most advanced economies like the U.S. and UK, Services make up three quarters of the wealth and 85 percent of preoccupation, our knowledge about the management of innovation in this sector is very inconsiderable (Tidd & Hull, 2003). One of the events that took place in new services development studies is that they focus on very specific topics of process such as designing new service (Shostack, 1984) or modeling the service operations (Chase, 1983). Moreover, researchers often investigated specific industries (e.g. banking or insurance) (Easingwood, 1986; Bowers, 1986). In the past, researchers of new product development (e.g. Cooper, 1999; DeBrentani, 1995; Link, 1987) did not separate evaluation of goods from service, rather, looked at services as part of "goods and services" combination (Schirr, 2008). While several studies on factors affecting the product performance of the new products is ongoing, we have little studies about affecting factors of new service success and failure (Easingwood, 1986; DeBrentani, 1995; Terrill, 1992). Development of models, concepts and theories to analyze and describe the development of new services is at early stage (Edvardsson et al., 2005). New service development needs its own framework. It's really difficult to find the literature with experimental results regards to the question: "what causes success or failure in banking services?" In first comparative study of success and failure (SAPPHO project-Rothwell, 1974) "efficiency and effectiveness of R&D team in development activities" and need for product champion with power and authority for project leadership were identified as important factors affecting new product success. Primary researches that only focused on new product success, suggests that recognition and perception of customer needs and inter-organizational relations are really important. Relation is a key to avoid work mistakes between frontline personnel (Cooper, 1979). Banking services should underpin based on meet the needs of market segments. This requires creative research for needs recognition by focus. Companies test their new services on a sample of potential

customers may have more satisfaction of project performance (Easingwood, 1986). Preliminary evolution, design test, market research, market potential, financial business analyze have positive effect on new service development (Edgett, 1994; Bowers, 1989; Bortree, 1991). An important key for new service is to develop product that target specific segmentation rigorously. Customer's segmentation maybe based on financial specification. This achieved by using focus groups to find out specifications that have most effect on consumer's behavior (Bortree, 1991). A new service development process that is well-supported is the component that have most contribution to new service succes (Edgett, 1994). Ineffective product marketing and poor market research is fundamental reason of new service failure. Especially, incorrect assessment of the market potential, poor understanding of the strengths and weaknesses of competitors, improper pricing have negative impact on the results of the product (Cooper, 1979; Atuahene-Gima, 1996; Edvardsson et al., 1995 ; Easingwood & Story, 1995; Cooper, 1979). Five important factors in the success of service development in financial service organizations are initial screening, preliminary market assessment, detailed market research, product development and review of market launch (Edgett & Jones, 1991). Effective communication with the customer, the product distribution and a product champion are key factors for the success of sales performance (Easingwood & Storey, 1995). In some studies customer servicing mentioned as an important factor and implementing a customer oriented new service process based on market has been suggested to success (Cooper, 1979). Also, Understanding customer behavior has impact on the successful new service development in banking and insurance (Oldenboom & Abratt, 2000).

Making a deep understanding of customer and knowing what is valuable from customer's point of view, making a customer-oriented culture in organization and make him involved in development process are key success factors of new service development (Edvardsson et al. 2005). In many management studies of key activities of NPD process, "people" and "structure" has been mentioned (Dejong & Vermeulen, 2003). About "people", they are heart of innovation process that making idea to improve services and converse ideas to successful innovations. In "structure", organization may use formal work relation systems to work division between colleagues and coordinating of them. Multifunctional teams have direct impact on overall new service development effectiveness. Main barriers in services development process are: lack of specifications and goals, unawareness of sponsors, weak responsibility division, resource allocation, lack of systematic reports on documentations and feedbacks. We need a contingency approach in new service development, accurate balance between planning and control may be useful to successful new service introduction and service providers should speed up their process (Edvardsson et al., 1995). Proficiency in new service development that defined as effective management and professional skilled personnel in frontline, mentioned as key success factor (DeBrentani, 1995). Technical skills and proficiency in IT systems and equipment will simplify new service combination and reduce speed of market launch

(Munoz, 2008). Technical skills, distribution resources, promotion skills, research and development and market research skills are crucial for new product success (Oldenboom & Abratt, 2000). New service development with an internal team reduces time to launch. Having An organization unit that devoted to new service development, will make and maintain a culture, supportive for new service creation (Munoz, 2008). A Model consists of (1) customer centric and upward organizational culture and (2) marketing research methods and (3) formal and iterative NSD process will guaranty the new service success (Schirr, 2008). Access to On-time and accurate information about service behavior in launching phase of the service improves effective correction and has impact on competitive performance (Munoz, 2008). A technological infrastructure is mentioned as important factor in some studies (Eisenhardt & Tabrizi, 1995). For innovative services, organizational culture as well as active involvement of senior management as circumspect, consultant and experienced person to support formal service development process is fundamental aspects of good performance. While senior management supports new ideas and inter-organizational relations encouraged, new services may be more successful (Heskett, 1986; Maidique & Zierger, 1984). Launch time is an important measurement for successful service development process that correlate with manager's support. Besides, cross-functional team, good planning, appropriate definition of parallel functions are examples of activities to precipitate new service development process (Martin & Horne, 1993). Continual managerial commitment to new banking services and confidence and reciprocal relation between marketing and research, relation with knowledge co-workers to discuss about research improve new service development process (Oldenboom, Abratt, 2000). Some studies discuss NSD prompts will be more successful in which the process is formal but more flexible and iterative (Schirr, 2008). In the literature customer insights is mentioned as an important factor (Munoz, 2008; Oldenboom & Abratt, 2000; DeBrentani, 1995; Storey & Easingwood , 1995; Terrill, 1992; Martin&Horne, 1993; Rothwell, 1974; Maidique & Zierger 1984).Launch time of new services is impressed negatively by Regulatory and legal issues (Munoz, 2008). Skills in new service development, project synergy, market characteristics and new service nature are determinants of successful new services (DeBrentani, 1995). Service superiority for consumer, strong market orientation, synergy between product development and produce are three attributes distinguish success from failure (Cooper, 1999). Better service quality than competitors and high performance regards to price are service advantages and are key success factors in new service development process in banking and insurance (Oldenboom & Abratt,2000). Low price, quality and validity have intensive correlation with new product success and organization should focus on managerial issues to success. Organization should elect projects that match with available technology, marketing and organizational competencies (Maidique & Zierger, 1984).

#### D. Research question

Because this research is looking for recognition of success factors in new banking services development in Iran by Exploratory Factor Analysis, 2 questions will be replied:

1. Which are key success factors in new banking services development in Iran?
2. How is the categorization of key success factors in new banking services development in Iran?

### III. DATA AND METHODOLOGY

This is a survey and Applied Research that using Descriptive Method (non-experimental) to data gathering. One of advantages of this kind of researches is its capability to generalize the results.

#### A. Variables

In analytical model of research, independent variables are: technical skills, market research skills, promotion skills, access to on time information, infrastructure, well-trained personnel, internal development team, and independent service development unit, senior management commitment to new service providing, effective relations between divisions in NSD process, supportive culture and environment, process activity quality, step-by-step plan from head to end, written procedures and goals, market competition, target market size, market potential, satisfaction of available services, customers relations, legal and regulatory aspects, service superiority, easy to use, response to demand cycle, commercial identity, time to understand the service advantages by customer, service newness to market, competitors copy, service/market fit, service newness to organization and type of technology. New banking service development success is dependent variable.

#### B. Population

Population in this research is consists of managers and personnel (male/female) in Department of Research, Department of new banking services, Department of Organizing and procedures, Department of Marketing and selected frontline personnel of bank branches from seven popular banks in Iran : Bank Saderat Iran, Bank Mellat, Bank Tejarat, Bank Eghtesad Novin, Bank Pasargad, Saman Bank and Parsian Bank.

Because sampling framework is definite and behavioral variables are general to all of population, we use simple random sampling. Sample size is 334 by Cochran formula:

$$n = \frac{Nt^2pq}{Nd^2 + t^2pq}$$

$$N=2500$$

$$P=0.5$$

$$Q=0.5$$

$d=0.05$

$Z=1.96$

### C. Validity and Reliability

A questionnaire composed of 66 questions about affective items on success of new banking services development and deals with 30 factors mentioned as independent variables. For reliability, Cronbach's alpha for 66 questions is 0.906.

For validity test, we use content validity as well as factor validity. For content validity, 40 questionnaires are distributed between experts and these results in modifying questions. KMO (Kaiser-Meyer-Olkin) which measures the sampling adequacy is 0.889 (Table 2) that shows satisfactory factor analysis to proceed.

**Table 1- Bartlett's Test of Sphericity and KMO**

Table 1: Bartlett's Test of Sphericity and KMO	
KMO	0.889
degrees of freedom	351
significance level	0.000

Results show that 6 factors' Eigen value is more than 1 (Table 2). Component 7 to 30 are omitted from factor analysis because their Eigen values were less than 1. Then principal component analysis with Varimax rotation identified six factors (Table 3).

**Table 2- Initial Eigen values**

component	Initial Eigen Values		
	Total	% of Variance	Cumulative %
1 (Technical skills)	8.711	32.262	32.262
2 (Market research skills)	2.523	9.344	41.606
3 (Promotion skills)	2.028	7.509	49.115
4 (Access to on time information)	1.740	6.444	55.560
5 (Infrastructures)	1.507	5.580	61.140
6 (Well-trained personnel)	1.294	4.793	65.933



**Table 3-Rotated Component Matrix**

Rotated Component Matrix						
	Component					
	1	2	3	4	5	6
Activity quality	.636					
Step by step plan	.668					
Written procedures goals	.734					
Service superiority		.814				
Easy to use		.732				
Response to demand cycle		.787				
Commercial identity		.699				
Time to understand advantages		.801				
Service newness/market		.726				
Infrastructures			.764			
Well-trained personnel			.853			
Effective relations between divisions			.704			
Supportive culture & environment			.790			
Senior management commitment to new service			.817			
Independent NSD unit			.792			
Internal NSD team			.761			
Satisfaction of service				.708		
Customer relation				.789		
Legal & Regulatory				.713		
Copy					.768	
Service/market fitness					.822	
Service newness/organization					.799	
Type of technology					.452	
Market competition					.709	
Target market size					.823	
Market potential					.787	
Technical skills						.633
Market research skills						.731

Promotion skills						.806
Access to on time information						.702
Extraction Method: Principal Component Analysis.						
Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 7 iterations.						

Therefore, according to rotated factorial matrix, the quality of process tasks, step-by-step procedures and well-written objectives as well as trends are attributed to the first factor; service excellence, easy usage, responding to demand cycles, commercial identity, the time required for the customer to understand the advantages of any given service, and innovative service for the market to the second factor; infrastructural variables, trained personnel, effective between-divisions communications during NSD processes, developing supportive cultures, the commitment of senior management personnel to provide innovative services, independent unit of service development, and internal development team are attributed to the third factor; customer services and satisfaction, customer relations, legal and regulatory to the fourth factor; Copy, Service/market fitness, Service newness/organization, Type of technology, Market competition, Target market size, Market potential to the fifth factor; and finally, technical skills, market research skills, improvement and promotion, Access to on time information were attributed to the sixth factor. Based on the data from the related literature, these six factors were respectively named "product development process", "innovative services", "organizational characteristics", "customer attitude", "market and competitors", and "skills."

#### IV. CONCLUSION

The present paper aims to identifying factors affecting successful new banking services development. After analyzing the results, these skills were determined as having the highest variances respectively: technical, market research, promotion skills, and Access to on time information. These variables are those of the sixth factor. Thus it may be suggested that the most important factor in new banking service development is "skills".

In fact, since team skills altogether help to solve complex issues (Munoz, 2008), Development teams should include experts with different responsibilities.

Organizations need service provider personnel with behavioral skills if they want to build customer trust (Neu & Brown, 2005). Improving technical skills of planner personnel and innovative service providers, conducting thorough researches (Cooper, 1979; Edgett, 1994), allocating enough time and money to improve the promotion methods and gathering prompt information in proper time (Bowers, 1989; Munoz, 2008) could be helpful in this regard. Acquiring, disseminating and using information related to market direction could also increase the possibility of providing successful new services directly or indirectly (Van Riel et al., 2004).

Infrastructures (Eisenhardt & Tabrizi, 1995) and skilled personnel (Manuz, 2008) are variables attributed to the third factor and Have the highest percentage after the sixth factor, (i.e., organizational characteristics). Therefore, it is suggested that proper initiatives should be taken to recognize weaknesses in infrastructures and allocating proper instruments to develop new services. Besides, it is suggested that purposeful actions be taken to develop a training program for personnel since the personnel are hearts of an innovation process in organization that providing ideas to improve services and develop successful innovations from ideas (DeBrentani, 2001). In fact, without skilled and trained personnel, all the actions toward developing successful new services would be useless. Employees in all organizations could make a change if they are eager and honest (Neu & Brown, 2005), friendly, polite and kind in direct contact with customers (Cooper, 1999). In personnel education process, all the commercialization process (from idea to market launch) should be considered. In addition strong internal marketing is vital to support and anxiety for new services (Cooper, 1999; DeBrentani, 1995).

To decrease market entrance time, having an internal team for developing new service could be helpful (Manuz, 2008; deBrentani, 1995). Dedicating an organizational unit to developing new services could generate an organizational culture which would be supporting new services. This supportive environment and culture could in turn increase the tendency toward providing new services (Schirr, 2008; DeBrentani, 1995). This of course requires an ongoing commitment of the management to provide new services (Oldenboom & Abratt, 2000; Maidique & Zirger, 1984).

One of the major factors affecting the performance of new service development team is communications within and between teams should be considered to improve the quality of service development (Edgett, 1994; DeBrentani, 1995), remove deficiencies and increase organizational efficacy. This could also have impact on market launch time for the final services (Cooper, 1999).

Having step-by-step plans as well as clear well-written ,accurate goals (Schirr, 2008; Manuz, 2007; Heskett, 1986; Oldenboom & Abratt, 2000)that are flexible (DeBrentani,2001), improve the quality of processes and help to measure the level of goal realize and also is an important step to increase the likelihood of successful new service development (Martin & Horn, 1993). In fact, the process for developing new services requires a proper formality level. While extra formal development processes have a positive effect on accelerating the new service development activities in organization (Froehle, et al. 2000; DeBrentani, 2001), this is not applicable for all development projects. Especially In turbulent environments and radical innovations, it seems that implementing informal approaches- e.g. a new process with more flexible timing which is planned for a given project - is more appropriate (Storey & Hull, 2010). Finally, the process quality is determined by emphasizing on development phases and precise activities within all phases. This is important in implementing all phases from idea generation to analysis for development and market launch test (Avlonitis .et al, 2001).

An important key for new service is to develop product that target specific segmentation rigorously (Edvardsson et al., 1995; Easingwood &Storey,1995; Schirr, 2008),match to market specifications (Atuahene-Gima,1996) new to market and have unique characteristics as well (Edvardsson et al., 1995; Easingwood &Storey,1995; Schirr, 2008; Easingwood, 1986; Edwardson et al., 1995; Griffin & Page, 1993; Ragot, 1994; Terrill, 1992; Shostack, 1977;). Market direction and potentials are important for market opportunity recognition in idea evaluation process and examine the concepts that are recently developed (Song et al., 2009). Proactive planning and predicting market trends helps organizations to succeed in market launch and therefore gaining competitive advantage (DeBrentani, 2001). Researches show that external fit (to the market) as well as internal (with the organization) are really important. The newness or fitness of service is an indication of the different organizational resources alignment (DeBrentani, 1995; deBrentani & Cooper, 1992). At the same time new services should contemplate inter-organizational aspects such as service provider systems (DeBrentani& Cooper, 1992) and marketing mix (Ottenbacher & Gnoth, 2005).

These characteristics could provide new services a new commercial identity (Cooper, 1999). In fact, evidences known as success factors found in DeBrentani and Cooper (1992) and deBrentani (2001) indicates that because services are intangible, developing tangible referral and a clear identity for products could help customers to visualize

provided services and analyze their advantages and may have a critical role in service development success, (deBrentani, 2001; DeBrentani& Cooper, 1992).

Service superiority including competitive advantage, easy to use service (Cooper, 1999; Schirr, 2008), short time for understanding the advantages of a service by customers (deBrentani, 1995; Easingwood & Storey, 1995; Oldenboom & Abratt, 2000; Manuz, 2008; Martin & Horne, 1993), proper response to demand cycles, by customer satisfaction from services (Storey & Easingwood, 1995; Oldenboom & Abratt, 2000; Manuz, 2008) make good customer relations (deBrentani, 1995; Martin & Horne, 1993) and results in service development success. The positive effect of customer involvement in different phases of development process (especially the idea generation phase) has been noted by many authors (DeBrentani& Cooper, 1992; deBrentani, 1995). It is found that customer Cooperation in the development process has a great impact on marketing capabilities (deBrentani, 1995), being ready to enter new service markets (Melton & Hartline, 2010), operational results and innovation volume but don't effect on competitive advantage and sale performance (Carbonnel, 2009). The ability of employees in understanding customer problems and requirements is important to meet their needs (Neu & Brown, 2005). Analyzing competitors and monitoring their imitating or copy pattern is as important as understanding customer needs (Cooper, 1999). Finally, legal limitations and regulatory – within the organization or in competitive environment- have a negative (albeit little) impact on launch time in new services (Manuz, 2008).

### **Suggestions for further research**

In this research, the most important affective factors in new banking services were identified. Reviewing the related literature and the results of the study shows that while measuring the new product development is not fixed in literature but most of the measurements focus on product performance, development time and costs (Ulrich & Eppinger, 2000). Each of These factors is affected by key success factors. While the current literature has only investigated the effect of three factors on these variables (Lynn & Akgun, 2003; Zahra & Ellor, 1993; Meybodi, 2003), the effects of other success factors should be studied either in future research.

The literature shows that there are seven phases for developing a new service development in organizations: opportunity evaluation and feasibility, acquiring technology, platform combination, implementation, commercial launch and post-launch stabilization (Munoz, 2008). The relationship between each of identified key success factors with these phases should be investigated.

Many models suggest three conceptual dimensions for new product projects: market nature, innovation nature and technology nature (Balachandra, 2000). Considering this model, key success factor of new service depends on where the project will be placed in this cube.

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