Strengthening Customer Perceived Value Through Service Innovationcase Bank in West Java, Indonesia

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Abstract: One of the banks' strategies in maintaining and enhancing customers is by creating the value that can be perceived by the customer. Service innovation is implemented as the effort to create this value. The aim of this study it to find out whether the high expectation of customers to this high value could be obtained by the advanced of service innovation. This is a verification study that utilizes analysis technic method of Structural Equation Modeling (SEM) on the basis of variance structure known as Partial Least Square Path Modeling (PLS-PM). The object of this study is business customers of banks in West Java, Indonesia. The result of this study shows that service innovation does not provide a big impact to customer perceived value. The possibility is that it is caused by the low interaction of business customers with bank employees because they use E-banking more often. The low interaction between bank employees and customers is suspected to be the cause the undelivered value from bank employees to customer.

Key words: Banking, service innovation, customer perceived value, suspected, West Java

INTRODUCTION

The banking industry recently acknowledges strongly that the customer is everything. With a very high competition, banks surely need a competitive advantage that can be used as uniqueness. Nearly 10% of banks' customers are prime customers who contribute well to the bank. Adams and Lamptey state that based on a study result with banks in Ghana recently that customer perceived value is the source of competitive advantage in recent economic situation. To strengthen the competitive advantage, banks implement service innovation with technology as the advantage to make it easier for customer in interacting, namely E-banking. This technology is considered as an advantage that is expected to provide value for the customer. On the other hand, although providing solution to customer, this technology also has drawbacks as stated by Kuusisto and Riepula (2009) that even though it provides a lot of benefits, there are also problems in service innovation in the companies of service industry, namely:

- Technology cannot fulfill the needs of customers
- Service innovation is ad hoc that it is unstructured and can only be responded in certain circumstances

Based on these conditions, the aim of this study is to determine how customer demands for this high value can be fulfilled with the advance of service innovation.

Literature review

Customer perceived value: Roig *et al.* (2006) and Komulainen (2010) have similar opinion that customer perceived value is the customer assessment on what the customer feels by comparing benefits and costs of a product or service consumed. Based on the study by Roig *et al.* (2006) conducted in banking services in Spain shows that customer perceived value will have a high value if supported by 6 constructs, functional of value installation of establishment, functional value of contact personnel, functional value of price, functional value of service (quality), social value and emotional value. The result of this study will be used as a reference of this study. Also in supporting this study, other study result is included by Komulainen (2010) who states that implemented customer perceived value (service innovation) is successfully able to deliver more value to customers.

This statement is supported by Woodruff (1997) that based on high demand of customers where in entering the global competition, companies are competing to own competitive advantage. Based in this study, it reveals that customer perceived value can be a competitive advantage as the uniqueness of the company where the customer will expect for a higher benefit compared to the cost.

Thus, according to Yang and Peterson (2004) that to increase customer perceived value, a company must increase its value such as quality and lower the customer sacrifice as in the price that has to be paid, the efforts and time must be spent by customer. In addition, other

opinion is expressed by Roig *et al.* (2006) that there are two important characteristics of customer value:

- Customer value is attached in the use of product used and can be distinguished from individual value or organizational value
- Customer value is perceived by the customer and cannot be objectively determined by the seller. It is only the customer who can feel the value of a product or service

To support this research, a study result by Komulainen (2010) conducted on retailer companies in Denmark which utilizes mobile advertiser as the implementation of service innovation. The result study states that customer perceived value implemented (service innovation) can provide value to customers.

Service innovation: According to Smets *et al.* (2011), service innovation creates value for customers, employees, business owners, alliance partners and communities through new and/or improved service offerings, service processes and service business models. This is in line with the definition proposed by Kotler that the value perceived by customer is very important because it can affect the buying decision. Thus, it is in accordance with what is stated by Adams and Lamptey that customer perceived value is the source of competitive advantage. According to Cruz and Paulino (2012) that the most important thing in service innovation is that the source of idea comes from the customer because in its implementation, customer will be involved in the process. Yet with time, service innovation is not developed too much since, according to Sundbo (1997), it is intangible and easy to be imitated by competitors. When competitor becomes the user, it will be easily adopted and imitated that is one of its weaknesses. In this way, sometimes it is hard to create uniqueness in service innovation. Only people who can make this service process to be unique because it depends on the character of service provider in delivering its service. According to Lee and Grewal and Dotzel *et al.* (2013) that service innovation consists of two categories, internet-enabled service innovativeness (E-innovativeness) and people-enabled service innovativeness (p-innovativeness). Both of these aspects provide benefits for customers. E-innovativeness as the aspect of technology provides benefits and conveniences while p-innovativeness as the aspect of employee uses empathy in dealing with customers.

According to Lu *et al.* (2010) that the actual innovation desired is able to change the consumer behavior. For example, the customer who had never used E-banking but with a good approach and description given by the employees of the bank, the customer in the end wants to learn to use it. So if the innovation is only limited to the technology but has not been able to involve human directly, it has not been accepted as service innovation.

Based on the description above, there is a match in the result study conducted by Adams and Lamptey to this study where the study of Adams and Lamptey states that internet banking is the implementation of service innovation which gives insignificant impact on customer perceived value in the banks in Ghana. Based on this description, a hypothesis is concluded that:

- H_1: The performance of service innovation in banks can affect positively on customer perceived value

MATERIALS AND METHODS

Model used in this study was referred to the one stated by Roig *et al.* (2006) in his study. The construct being used referred to the study on banking service. Therefore, it is hoped to be in accordance with the study being conducted, namely on banking service in Indonesia.

This is a verification study that is used to reveal the relationship between variables of this study. Verification study is an approach method in the study with hypothesis. Research method used is survey where this research will take sample of a population and use questionnaire as the data collection tool. The analysis and observation unit in this research is business customers of banks. Respondents were taken from 8 banks that have implemented service innovation in West Java, Indonesia, amounting to 365 customers. In this research, the premier data were obtained through interviews and questionnaire of 8 banks business customers. Respondents in this study were business customers of banks. Variables of service innovation were measured by 14 question items while customer perceived value was measured by 15 question items using Likert scale. In this study, technique analysis used was the method of Structural Equation Modeling (SEM) based on variance structure more known as Partial Least Square Path Modeling (PLS-PM). The sample was taken by probability sampling with multistage random sampling, namely the first step was by stratified random sampling with proportional allocation for each bank, then the selection of respondents of each bank was done by systematic sampling.

RESULTS

In the structural model analysis, causality testing of service innovation on customer perceived value was conducted as described (Fig. 1). Statistic hypothesis are as follow:
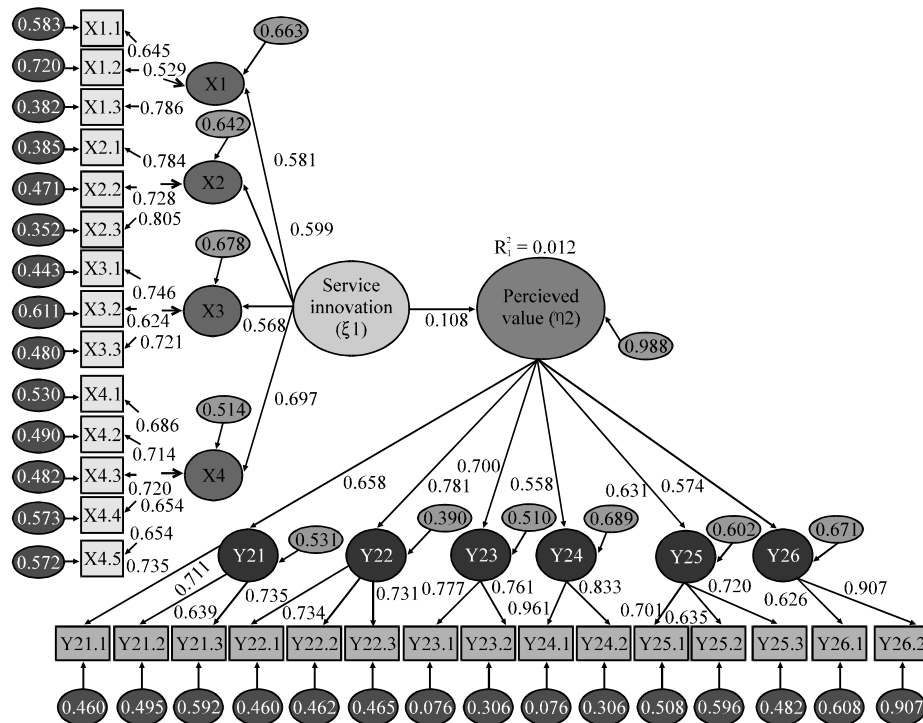
Fig. 1: The effect of service innovation on customer perceived value: X1 = Service offering; X2 = Customer interaction; X3 = New delivery system; X4 = Technology Y21 = Functional value of establishment; Y22 = Functional value of contact personel; Y23 = Functional value of service purchase (quality); Y24 = Value of price; Y25 = Emotional value; Y26 = Social value

Table 1: Hypothesis testing: service innovation affects customer perceived value

Effects	Service innovation-Customer perceived value
Effect magnitude	0.108
R^2	0.012
SE	0.047
t	20.318
f^2	0.014
t-table	1.964
Decision	Reject null hypothesis

- H_0: γ_{21} = 0. Service innovation does not affect customer perceived value
- H_1: γ_{21} ≠ 0. Service innovation affect customer perceived value

To test these hypotheses, student's t-test was conducted by the result as given in Table 1.

Table 1 shows the effect magnitude of service innovation to customer perceived value is 0.108 on deviation standard or is only 0.012 of the determination coefficient. This shows that the contribution of service innovation perceived by the customer is 1.2%, the changes in customer perceived value are affected by the service innovation changes. In other words, a high customer perceived value is determined by service innovation. Through, hypothesis testing using student's

t-test, it is concluded that null hypothesis is rejected with value of t count is greater than value of t-table. The result shows that service innovation contributes positively to customer perceived value. The effect size of 0.014 that is <0.02 shows that the effect of service innovation to customer perceived value is not strong and tends to weaken although the effect is significant.

DISCUSSION

Performance of service innovation perceived by bank customers among others are providing saving service offers according to business customers' need and requirements and procedures that can be fulfilled by the customers. In addition, bank employees are able to give suggestion to save or invest fund in banks in order to get a greater return than saving interest. Customers also feel the benefit of the financial advisory services performed by bank employees. Next, bank employees are able to stimulate customers to say their complaints that in the ends, it will stimulate the new ideas for banks from the customers. Also, bank employees suggest the customers to always transact through internet and convince that the internet used is save and give a great benefit as well as

efficiency for companies. The result of this study shows that although, service innovation has been implemented in banks in West Java but it only gives a small effect to customer perceived value. This shows that changes that occur on customer are generated from the changes occur on service innovation, although the changes in innovation can only do minor changes on customer perceived value.

This is due to service innovation, especially for business customers, E-banking is the aspect of technology that is mostly used. All business transactions are performed through internet for example, over-booking of company accounts, transfer to clients or anything related to finance. Financial transaction of business customers are often done with an average of 3 times a day. They use E-banking for practicality and convenience in doing transactions, therefore, the interaction between business customers and bank employees are relatively rare. Thus, there are many bank advantages that are not conveyed by bank employees to customers. In addition, there is a possibility that bank employee are carried away by the ease of E-banking that lead to less interaction with customers. Therefore, the implementation of service innovation still provides value perceived by the customer but dominated from the technology side.

CONCLUSION

The influence of service innovation to the value perceived by customer is not too strong and tends to be weak although the effect is significant. The changes occurred to customer perceived value are very small which are affected by changes occurred in service innovation. It can be concluded that changes in service innovation such as suggestion to optimize saving fund and technology with high efficiency, although provides benefits and solutions to customer, only affects less to the customer perceived value. This is due to the low contact between the customers and bank employees because of the high usage of internet banking.

RECOMMENDATIONS

Therefore, further research is suggested on the change of customer behavior as a result of the impact of

the low contact between the customer and bank employee, due to the usage of technology particularly in internet banking.

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