

Innovation and New Service Development in Select Private Life Insurance Companies in India

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ABSTRACT

Global life insurance industry is facing major changes and the leading insurers are innovating their services in order to compete. Shifting consumer needs, changing regulatory requirements and the service competition are driving insurers to shift from the traditional ways of doing business to new channels, business models, processes and technologies. Services are the engines of expansion in the modern economies and service innovation is of vital importance to these service organizations. In this exploratory study, an attempt is made to understand how service firms actually innovate. Zonal managers of select ten private life insurance companies in India are interviewed. It is found that all the ten private life insurance companies have a Formal NSD unit and the top executives and research and development department participate in the creation of new services. The role of customers are also considered important.

INTRODUCTION

The focus of innovation research has long been on physical products and systems. The importance of service innovation is recognized by most academics and there is an important body of literature that has laid emphasis on this. New service development is becoming increasingly important to the competitiveness, growth, and survival of organizations.

Life insurance is a professional service which is characterized by high involvement of the consumers, due to the importance of tailoring specific need, the variability of the products available, the complexity involved in the policies and processes and ultimately the need to involve the consumer in every aspect of the transaction.

The Global Insurance Industry is facing major changes and the leading insurers are innovating in order to compete. Shifting consumer needs, changing regulatory requirements and the intense competition are driving insurers to shift from the traditional ways of doing business to new channels, business models, processes and technologies.

“All factors are in place for the Indian life insurance industry to blossom into one of the fastest-growing financial services markets in the world. The next five years will be very exciting” said Tilman Erhbec.¹

The insurance sector in India began its reform process with the passage of the IRDA (the Insurance Regulatory and Development Authority) Bill in the Parliament in December 1999. With the setting up of the IRDA, in 1999 the Government has once again de-regulated the sector opening it for the private players, thus breaking the public sector monopoly - Life Insurance Corporation of India.

The insurance landscape in India is poised to experience major changes in its insurance markets as insurers operate in an increasingly liberalized environment. It means new products, better packaging and improved customer service, greater choice among products and services and introduction of new distribution channels.

The objective of this study is to investigate whether the Private Life Insurance organizations use systematic procedures in the areas of New Service Development (NSD) Strategies and deploy that for new services. This study also reports on how the organizations involve their customers in the service innovation process. Customer involvement in NSD brings about the interaction of the service provider and the existing and potential customers at the program, project or at any stage or level of the innovation process, to anticipate the latent needs and the development of the services accordingly.

REVIEW OF LITERATURE.

The differences between services and physical products have been well covered in the existing literature. Generally speaking, services tend to be intangible, heterogeneous, simultaneously produced and consumed, and perishable (Levitt, 1981²; Zeithaml, 1981³; Johne & Storey, 1998⁴). As a consequence, innovation in services mostly involves small and incremental changes in processes and

procedures, and innovations in services are easier to imitate (Atuahene-Gima, 1996)⁵

Organisational Roles in NSD

The strategic management literature provides evidence for the need for organizations to continuously create new products/services, to maintain a competitive edge and to exploit evolving customer needs (Peters.T, 1990).⁶

Lovelock and Writz⁷ dedicate little space for new service development and describe straightforward processes based on common marketing and operations ideas.

In their extensive review of the service development literature, Johne and Storey⁴ note that “it is surprising that there has not been more effort to develop a specific service development model”. Edwin J Nijssen et. al.⁸ propose a model that should focus on the distinctive features of service development rather than stress the similarities with new product development. More specifically, the model should recognize that “it is not the service itself that is produced but the pre-requisites for the service” Edvardsson and Olsson 1996.⁹ Thus, more attention should be paid to organizational aspects in new service development De Brentani 2001¹⁰.

Scheuing and Johnson¹¹ expect Marketing to take part in the Generate steps, while Customer contact personnel, Operation personnel and a Budgeting function to take part in the Develop steps; all personnel as well as Users are expected to perform the Deploy steps.

An exploratory study by Iris Ginzburg et al., 2007¹² based on previous research on related questions allows them to form initial theoretical expectations. The detailed process for new service development as suggested (normatively) by Scheuing and Johnson aims at the design of both the service and delivery process, and assumes the involvement of service personnel and customers. Given the contingent and exploratory nature of the research question they propose a simplified innovation life activity model (generate, develop, deploy) for characterizing the trajectory of an innovation in an organization, grouping the fifteen steps of the new service development process under three main innovation stages.

The understanding of how service firms actually innovate is found out by looking at the type of organizational structure, the people responsible for innovation, how the innovation process is managed, the presence of an explicit innovation strategy and the role of leaders in innovative efforts (Johne 1993¹³, Drew 1995¹⁴, Alam and Perry 2002¹⁵,

Kandampully 2002¹⁶). This has contributed to the understanding of the NSD process and its key success factors. Successful service companies show a commitment to service development and generally have aligned their culture and systems to support innovation efforts. NSD programs in these organizations are more formalized, proactive and the whole process is better structured than that of their less successful counterparts. Moreover, they have high quality development staff and a clear strategy for new services as well as an aim beyond short-term financial objectives (Johne 1993¹³, Drew 1995¹⁴, Johne and Storey 1998⁴).

Top management is responsible for helping the organization overcome barriers and thus facilitate organizational change. As Johne (1993) argues, it should lead to “envisioning, energizing and enabling” a firm’s NSD program. It involves anticipating trends and enact changes in the market place (Colarelli O’Connor and Veryzer 2001)¹⁷, providing a formal NSD process, sound communication/coordination and adequate resources (Johne 1993¹³, Johne and Storey 1998⁴), and reducing intra-organizational conflicts and the struggle for power between departments (Edvardsson et al. 1995¹⁸).

Areas of innovation – Den Hertog’s model¹⁹

Den Hertog (2000), has stressed that innovation in services can be related to innovation in the service concept, the client interface, the delivery system and technological options.

The Service Concept: refers to a service concept that is new to its particular market – a new service in effect, or in Edvardsson’s, 1996¹⁴ terminology, a “new value proposition”.

The Client interface: refers to innovation in the interface between the service provider and its customers.

The Service Delivery System: also often relates to the link between the service provider and its client, since delivery does involve an interaction across this interface. But there are also internal organizational arrangements that relate to the ways in which service workers perform their job so as to deliver the critical services. Many innovations concern the electronic delivery of services.

Technological Options: Now, IT is especially important to services, since it allows for greater efficiency and effectiveness in the information-processing elements that are prevalent to a great extent in services sectors.

CUSTOMER INVOLVEMENT

In his thesis, customer involvement in new product and service development is defined as those

processes, deeds and interactions where a development team collaborates with current (or potential) customers at the program, project and/or stage level of the development process, to uncover sticky information such as latent needs, develop customer knowledge, and develop new solutions accordingly. Bodil Sanden, 2007²⁰

In investigating 12 service firms, Alam (2002)¹⁵ suggests a customer involvement continuum for NSD, where passive user participation is at the least intense end of the continuum and representation is at the extremely intense end of the continuum. He found that the respondents reported four levels of involvement, the **Passive acquisition of input, Information and feedback on specific issues, Extensive consultation with customers and Representation.**

Another categorization of the degree of customer involvement is provided by Ives and Olson, 1984²¹. They proposed a user involvement continuum based on previous research on customer involvement in information systems development. At one extreme, system designers make assumptions about requirements and ignore user input. At the other extreme, users design various systems and accept them on user defined criteria of quality.

Six categories are listed:

1. **No involvement.**
2. **Symbolic involvement.**
3. **Involvement by advice.**
4. **Involvement by weak control.**
5. **Involvement by doing.**
6. **Involvement by strong control.**

Jeppesen (2005)²² provides another example of a customer involvement continuum and lists three different approaches according to their degree of opportunities for consumer involvement (OCI). The three approaches are, **Listening to consumers, Interaction with Advanced Users and User Toolkits for Innovation.**

RESEARCH METHOD

This is an exploratory study of Private Life Insurance Companies in India. There are 16 Private Life Insurance Companies in India and a letter explaining the purpose of the study and an interview guideline outlining the constructs of interests and a questionnaire are sent to a convenience sample of 10 companies. Out of which 4 (A, B, C and D) are in the first top 5 and 3 (E, F and G) in the next 6 and the last three (H, I and J) among the last 5 private life insurance companies in terms of the amount of premium collected.

The regional manager of the company is interviewed. Those interviewed expressed deep interest in the questions of NSD process and customer involvement. The interviews lasted between 1 hour and 1.5 hours with the questionnaire given to the respondent as reference and filled by the interviewing author. The number of Life Insurance Companies interviewed is 10 out of the total of 16 and this provides some representation of the private life insurance companies in India. Due to the need to maintain the anonymity of the participating companies, the companies are hereon identified alphabetically.

The interview and the questionnaire format allowed a more flexible exploration of the many dimensions of organization structure and customer involvement in the NSD process among the respondents. Although the completion of the questionnaire instrument was central to the interview, informants provided additional contextual details.

For this study, the key questions focused on the role of the various individuals in the NSD activity, the level of market research undertaken and the presence of NSD activities. The examination of the characteristics of the NSD processes focused on the role assigned to NSD in achieving the corporate and strategic goals, the location of the responsibility for NSD, degree of formalization of the NSD process, how inter-functional involvement is sought for the fulfillment of the various stages in the NSD process, the relative influence of the various units in the NSD process and the role of actuaries in relation to development of new services.

Finally, the level of NSD activity and the perceived level of success of the new services was measured through the average number of service launches in the last five years.

FINDINGS

Organizational Roles of New Service Development

(1) *Presence of an NSD unit* All the 10 insurance companies have a separate unit for NSD. The creation of such a unit is justified by the fact that more time is to be spent on these activities than is possible by service or sales manager. Since the services are managed as profit centers, the research and development department is viewed as the appropriate point of responsibility for new services.

(2) *Existence of clear strategic role for NSD*

The existence of a specialized unit responsible for NSD shows that there exists a clear strategic role for NSD in all the companies. The operations of the NSD to some extent involves tactical and reactive

activities. For example, the regulations by the Insurance Regulatory and Development Authority (IRDA) in India governs the introduction of the insurance product into the market. The approval of the IRDA has to be obtained before the product is launched into the market.

The current trend that is prevalent in the market is for the companies to base their services on the services already prevalent in the insurance industry and also on the ones developed by the rival companies, for eg., The Life insurance savings schemes for children. Most of the companies are offering this service to achieve a competitive advantage over the rival companies. Insurance company A launched a children's insurance scheme, as it was a big success for the rival insurance company. The company developed this service by converting the disadvantage of the rival company's product to its advantage. This is in support to the research finding that innovation in services mostly involves small and incremental changes in processes and procedures, and innovations in services are easier to imitate (Atuahene-Gima, 1996)⁵

(3) NSD Process is a formal activity and an Informal activity.

Idea generation is a formal activity in all the 10 companies. The companies have formal structures supporting the existing research findings on financial institutions (Iwamura & Jog, (1991)³³; Reidenbach & Moak, (1986)³⁴

All companies interviewed follow the new services introduced by their rivals very closely by studying the features, their costs and the benefits. New services are mainly reverse engineering of newly launched services of rival companies but with slight modification. The top executives, are generally the initiators of the new service ideas based largely on the developments in the industry. The companies also involve their business partners and market research department along with the marketing personnel and the customer service teams in the idea generation stage. None of the companies has involved their customers at the idea generation stage.

The second stage of the NSD process is the development stage. In this stage the top executives, the market research and customer service department are involved. All the 10 companies have an Actuarial department which collects the information about the frame work of the service to be developed and takes up the job of designing of the product. Features involving the calculation relating to premium, age, mortality, claims, period and profit are the major areas of the actuaries. The service designed is sent to the IRDA for approval.

In Companies E, F, G, J, adhoc committees are formed for the purpose of developing a new service. Except for the first 4 companies, all the other companies use an external research agency in their NSD process. The regional manager of B added another dimension, the economic cycle and the demographic profile of the population. This explains why the NSD process is marked by some level of informality.

In 6 Companies inter-functional involvement is present in all the three stages of the NSD process. In all 10 companies it is present in the implementation stage. The new service ideas are developed into somewhat full fledged services with the constant consultation of the relevant sections. Although the inter-functional involvement is broad, their role appears to be uneven. The fully developed service is submitted to the IRDA for approval.

Idea generation and implementation phases are characterized by informality and formality respectively. The early phases of the new service development processes are less distinct and informal according to Company A and B. The pre-commitment phases of ideas generation, screening and evaluation are informal and the service concept development and implementation are carried out in a highly formal manner with formal structures that establish a fixed pattern of interaction in all the companies. Once the official management commitment is made, the process becomes more formal and structured as has been reported by earlier writings on innovation and new product development (Johne & Harborne,(1984)²⁴. Individual departmental responsibilities are delineated subject to a specified time-frame. There is a tighter control of the post-commitment stages in order to develop the delivery system by a given date.

(4) Market Research for NSD an important activity.

The use of formal market research is very high in all the companies as competition is intense. One of the companies in addition to its own research activity sets up adhoc committees while another entrusts it to external research agencies. The concept of market testing is not prevalent in all the 10 insurance companies before the full launch of the product. Company C claims that they have done research in terms of identifying the demographics and psychographics of their customers.

Table 1**Individuals involved in the NSD process**

Individuals	Idea Generation	Develop	Implement
Top Executives.	10	4	Nil
Business Partners	4	1	Nil
Customer service personnel.	4	4	10
Marketing Personnel	2	1	10
Operations	6	6	10
Actuaries	Nil	10	Nil
All personnel (inter functional)	6	6	10
Customers	Nil	Nil	Nil
Market research	10	10	10
External consultants	1	6	1
Adhoc members	1	4	1

Table 1 reveals the analysis of the participation of the individuals in the various stages of service innovation.

At the Idea generation stage - the top executives generated ideas in addition to the R&D in all the 10 companies. Marketing and customer contact personnel are not the top idea generators.

At the Development stage – The actuaries in the actuarial department are well represented in the development and design of the service in all the ten companies. All the companies also involve the R&D. The top executives of 4 companies are involved in this stage and six companies appoint external consultants and 4 companies appoint adhoc committees for this purpose. In 6 of the 10

companies the operations and inter-functional personnel are involved.

At the implementation stage – Marketing, customer service personnel and R&D are well represented in this stage. Customers do not directly participate in the implementation stage.

The degree of formalization in all the 10 companies is only medium. From the analysis of time frame and formalization of the NSD, it is clear that all the managers of the companies are of the opinion that in the last three years the degree of formalization has increased compared to the years 2004 and 2005.

Successful service companies show a commitment to service development and generally have aligned their culture and systems to support innovation efforts. NSD programs in these organizations are more formalized, proactive and the whole process is better structured than that of their less successful counterparts. Moreover, they have high quality development staff and a clear strategy for new services as well as an aim beyond short-term financial objectives (Johne (1993)¹⁷, Drew (1995)¹⁴, Johne and Storey (1998)⁴. This is supported by the findings from the 10 private life insurance companies.

(5) New Service Development Activity

Table 2
New Service Development Activity and Performance of New Services in the last five years. (2004-2008)

COMPANIES	2004	2005	2006	2007	2008
A	10	5	4	3	4
B	12	NIL	6	5	5
C	12	6	4	2	4
D	10	1	11	5	2
E	10	5	4	4	3
F	NIL	2	3	5	3
G	NIL	2	1	2	1
H	2	2	10	4	3
I	NIL	2	2	3	3
J	NIL	2	4	2	1

Table 2 shows the services developed by each company for the years 2004 to 2008. The companies with an average of about 5 to 6 services per year can be rated as very active companies. The companies with an average of 2 to 4 services a year can be rated as medium active ones. The companies with an average of 1 to 2 services per year can be rated as low active companies. There is a hierarchy of life

insurance companies from very active to low levels of new service development. The regional managers and NSD unit who managed new services have claimed success for all the services introduced.

A, B,C and D ranked in the top 5 have established themselves as a distinctive life insurance company with an innovative, attractive and customer friendly product portfolio and a professional advisor sales force. These companies believe in continuously developing customer driven products and services.

E, F and G in the next 5 companies aim to differentiate itself through customized need based selling of simple and innovative products. These companies have chosen some exemplary banks and financial institutions to serve as the interface between the customers and the company.

When companies H, I and J entered the market, most companies were offering traditional life insurance products. These companies aim at offering contemporary unitized products and offer unique customer benefits like flexibility to chose, indexation and partial withdrawals.

All the insurance companies aim at product portfolios to cater to every segment and age- income groups. Company D expects to carve a niche in the Indian insurance market through product innovation and adoption of technology. Company F aims at developing highly customer sensitized products and claims that flexibility is their corner stone. When company E entered the market most companies were offering traditional life insurance products and this company took a different approach and claims that it was the first private insurance company to introduce modern Unit Linked Products. The company has also modern and contemporary unitized products like Pension Plus, Life Shield and Young Achiever to name a few.

Thus the standardized products in the market are adopted and modified to suit the particular user needs. This supports the finding, that the production-intensive services companies like banks, insurances, telecommunications, transport and wholesale service companies put considerable effort into the simplification of their service offerings, and are also keen on the adaptation of standardized services in the market to particular user needs (Soete & Miozzo, 1989²⁵; Evangelista & Savona, 1998²⁶).

INNOVATION AND TECHNOLOGY IN SERVICE DELIVERY SYSTEM.

The final step involves the translating of the final blue print into specific implementation plans for the service delivery process. Service development, service design and delivery are intricately intertwined. All parties involved in any aspect of

the new service must work together at this stage to delineate the details of the new service. (Valarie A Zeithmal and Mary Jo Bitner, 2003).²⁷

Innovation in the delivery system refers to the internal organizational arrangements that have to be managed to allow service workers to perform their job properly, and to develop and offer innovative services.

All the insurance companies have a structured internal organization team with customer service teams for the delivery of the service. Extensive training is given to the service contact personnel who are called the Financial consultants or Agent advisers. However, none of the 10 companies is adopting special delivery system in relation to the client interface.

Technology and service delivery

Information Technology progress is a major driver behind the structural change in the Life insurance industry to enhance risk transfer efficiency. E-business opens up new ways to reduce costs while lowering market entry barriers and facilitating the break-up of the traditional insurance value chain. Insurance clients will benefit from greater transparency, lower prices and improved services – not just in the sales area, but also in claims management. New information and communication technologies are making it easier for insurers to break up the value chain and outsource individual functions to specialised providers.

In the long-term basis the information technology units control the potential for NSD since all new products represent a more **sophisticated delivery** of the service. Although it is argued that service innovations are often non technological, this is still the center of much analysis and debate (Kandampully, 2002)¹⁶

All the 10 companies have a website and online payment of premium is in existence. Comparative quotes are not given by individual insurance companies but independent price comparisons by clients are possible through the internet. The companies forward the required data to the clients and the clients can also put their requirements to the respective insurance companies. All the insurance companies use the internet to target potential clients. Company G has 'Find the Right Plan' and Company H 'Life Insurance Selector' on their web sites. The customer has to fill in the necessary details and find out an appropriate policy to suit his needs. All the life insurance companies have not yet utilized the internet for online distribution of policies and for policy administration and claims settlement, which they hope to start at the earliest.

The zonal manager of Company B states that insurance business is information sensitive in nature and aims at risk reduction and maximization of gains by leveraging technology strategically to service customers quickly, efficiently and conveniently. They also firmly believe that efficient service delivery will be one of the key differentiators that can target, attract and retain customers. The competitive dynamics and their pole position in the business, makes it imperative to invest in an automated web-based lead management solution. This web-based system will take care of all processes like generating standard forms/policies from the information gathered from the customer, converting it into PDFs and then distributing the leads to sales staff/agents.

Company B ranks first in adoption of information technology. Company A ranks second in the adoption of high levels of technology in its operations. This company aims to provide the highest standards of customer service through a technological interface. To facilitate this, call centers and help lines have been installed and customers will have access to their accounts through the Internet.

The regional manager of Company E says that, their company being customer-centric, has invested heavily in technology to build world-class processing capabilities.

CUSTOMER INVOLVEMNT AND SERVICE INNOVATION.

Customer Involvement

All the regional managers of the 10 life insurance companies felt that involvement of customers in NSD is important. The analysis reveals that the customer's involvement is only symbolic and they are involved to the extent that they are information providers. The companies encourage customers to give feedback on services through the use of help desks and call centers. Information collected through complaints, feedback and sales reports are analyzed and the developers design customer solutions on behalf of the customers. Thus customers contribute indirectly for the development of the service. No company has involved their customers as co-creators or service designers.

The Zonal manager of company A expressed his opinion that the voice of the customers is the most important and critical resource for new and innovative service development. The customers have a store of knowledge about the products and competitors. The data and information so collected constitute the prime input for developing innovative services.

OCI (opportunities for customer involvement)

All the companies have created opportunities for customer involvement, although it is restricted to collection of feedbacks, complaints and interviews. Only company C and D interact with lead users (Customers paying high premium and many policies) and their opinion is considered to represent the requirement of the customers in the market. Company A follows the system of collecting data from HNI (High Net worth Individuals) who are members of the Regional Advisory Committee. The HNI is popular in terms of position, wealth and need not necessarily be a person paying high premium or the purchaser of many policies. The Regional manager of this company also suggests that such committees should be there at each division and at branches.

The need and importance of the customers involvement in the service innovation process is considered to be of prime importance by all the life insurance companies as the current market for life insurance is customer centric. They also express their opinion that the new services developed currently are based on customer focus. The degree of involvement of the customer has gradually increased in the last five years. In the last two years customers are involved in the new service process as information providers. Moreover, some of the organizations are interested in involving customers as members of their advisory committees. One organization has involved customers as HNI's in their committee. Suggestion is given for involving such individuals at the branch level also. Thus compared to the years 2004 to 2006, the degree of customer involvement has increased.

LINK BETWEEN NSD AND REWARD AND RECOGNITION.

In 6 out of the 10 companies there is link between NSD and reward and recognition and there is no penalty for the failure of a new service. However, one company said there is no reward or recognition. The concept of penalty is also not there for the failure of a service. Only one of the companies is adopting the system of reward for success and penalty for failure of a new service.

CONCLUSION

This is a small exploratory study of the individual's role in the organization of the NSD activity in private life insurance companies in India. Moreover, the importance of involvement of the customers and the degree of their involvement is also found out. Starting with the literature on the

NSD, customer involvement and the service innovation, certain specific roles of individuals in the organization and the extent of customer involvement is also determined.

A survey of 10 Private life insurance companies has shown that there exists a separate NSD unit with strategic roles and the top executives along with the R&D department develop services in a formal way and it is also an ongoing activity in the organization. It can be concluded that there is an effective system of innovation in these service organizations.

Although all the companies are aware of the importance of customer involvement in all the stages of the innovation process, the results show that there is potential for increasing customer involvement in the NSD process. Another observation from the study is that the top executives of all the ten companies participate in the idea generation stage. The role of R&D in the service innovation process is important in all the three stages.

The contribution of this study is in exploring the importance of service innovation in the life insurance sector and with special reference to private players in the market as an aide to understanding the service innovation processes in life insurance organizations.

In the current scenario with the liberalization of the life insurance industry, the customer will be the single most important factor, forcing changes in the life insurance business. Fuelled by competition, increased awareness will bring the customers on to center stage. For insurers, therefore, the critical success factor would be managing the customer.

This study is aimed at life insurance companies, but with globalization and liberalization the importance of the NSD process can be relevant to all service organizations. The main limitation of this study is the small number of sample studied and the difficulty involved in abstracting data from a simple questionnaire and a brief interview. The possible bias of the respondents is an additional limitation of this exploratory study.

Suggestions for further research include gathering more data through interviews with all the private life insurance companies in India. Moreover, a comparative study between the NSD process in public sector undertakings and private companies can be made.

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