



## The Role of Innovation and Perceived Service Quality (PSQ) in Value Creation for Customers of Pasargad Bank in Gilan

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### ABSTRACT

*This paper tries to examine the role of innovation and PSQ in value creation for customers of Pasargad Bank in Gilan. The study is applied in terms of purpose, descriptive of causal type regarding method of data collection, and has six hypotheses. Data measuring tool is a standard questionnaire. Study population is customers of Pasargad Bank, Gilan. Using Cochran's formula for infinite population, we determined the sample size. We distributed 400 questionnaires randomly among customers of Pasargad Bank, Gilan, and 385 questionnaires were returned to the researcher. We used SPSS 20 and Smart PLS 2.0 software to test the hypotheses. The results of testing the hypotheses indicate that innovation in service and management innovation have a significant positive impact on service quality perceived by customers. Moreover, the results showed that PSQ has a positive and significant impact on creating value for customers of Pasargad Bank, Gilan.*

**Keywords:** service innovation, management innovation, process innovation, PSQ, customer value

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### INTRODUCTION

For the customer, value can be quality of products, services, or benefits received from companies. Benefits received include a combination of physical features, technical service and support, competence, market position, and social rewards. The customer can easily conceptualize value through a comparison of what is paid and what is received. From the customer's viewpoint, value is determined in the market and by customer's perception of what is paid and what is received and not at the factory through willingness and assumptions of the supplier (Tabatabayin Nasab and Hadadian, 2014).

Among the factors that affect value-creation for customers is the quality of products and services perceived by customers. The potential difference between people's expectations and their perception of service quality is not only a measure of quality of service, but it also expresses their satisfaction and dissatisfaction. Service quality from customers' perception depends on the amount and intensity of the difference between customer's expectations of quality and his perception of quality (Yousapronpaiboon, 2014). On the other hand, innovation in services is the result of spending energy by the company to think like customers, and the company's efforts to create innovation in services, which leads to formation of value for customer (Yaslioglu et al., 2013). Innovation is introduced as an idea, product, or process that is new for the company and refers to the tendency of the company to develop new elements or a new combination of existing products, technologies, or methods of management. Many studies have confirmed the importance of organizational innovation for competitiveness. Some studies have studied the impact of organizational innovation on organizational performance with

respect to efficiency, reducing delivery time, creativity, quality, originality, and flexibility (Hernandez-Mogollon et al., 2010).

Today, managers and planners of banks have found that by attracting more customers and keeping the existing customers, they can continue their successful activity in the market. Thus, managers and planners of banking industry, particularly the branches of Pasargad Bank, must find ways to recognize and value their customers. This is because presenting better and more innovative services to customers facilitates creating value for them, guarantees the continuation of relationship with the bank, and facilitates performance improvement of the bank. According to the aforementioned, this study seeks to answer the following question: does innovation affect creating value for customers of Pasargad Bank, Gilan?

### Review of literature

#### Customer value

Customer can easily conceptualize value through comparing what is received can customer and what is paid (Kazemi and Peru, 2012).

Value to the customers means they get a better feeling upon receiving the service compared to before receiving it. From the customer's perspective, value can be the quality of products, services, or benefits received from companies.

Benefits received include a combination of physical features, technical service and support, competence, market position, and social rewards. The customer can easily conceptualize value through a comparison of what is paid and what is received. From the customer's viewpoint, value is determined in the market and by customer's perception of what is paid and what is received and not at the factory through willingness and assumptions of the supplier (Andreu et al, 2010).

Customer considers value in the relationship between any benefits when shopping, gaining, consumption, the use of after-

sales service and in any kind of "loss" he makes to enjoy the benefits. It is important to note this and all believe that customer value is determined based on the imagination and desires of customers and not suppliers (Badii *et al.*, 2014). Determining customer value is a qualitative method to determine the value that the customer expects from service and products.

The chart of hierarchy of values includes three aspects of value including:

1. The actual level of products and services, which is called their features (what is product, what is its composition and characteristics, or what function it has?)
2. The middle level, which is mostly subjective considerations and the result of studying what product or services the customer wants or needs, which is called the result or consequence.
3. The highest level, which reflects the core value and purpose of the consumer of buying a product or service, is called the desired final component (Makuyi and Fazlalahi, 2007).

### Perceived service quality (PSQ)

Service quality from customers' perception depends on the amount and intensity of the difference between customer's expectations of quality and his perception of quality (Yousapronpaiboon, 2014).

Palmer (1998) suggests that technical quality refers to relatively qualitative features of services that customers experience during their interaction with the organization because both the service provider and the customer can easily examine it. Operational quality can be used to create a competitive edge by focusing on the more personal aspects of service faced. Perception of service quality is positively related to inclination to recommend (oral advertisement), and negatively connected to complaint behavior. Backer (2000) stated that service quality has a direct impact on the profitability of the organization since it is positively related to customer retention and loyalty. The issue of customer retention is very important for managers of service organizations. Rosenberg (1983) showed that the cost of acquiring a new customer is six times the cost of maintaining current customers. Many researchers have examined how higher levels of PSQ lead to increase in customer satisfaction. In addition, customer satisfaction is a tool for his loyalty that directly affects the profitability and overall company performance (Purcarea *et al.*, 2013).

According to Oliver (1980), customer satisfaction is a function of the gap between perceived performance and customer expectations. Parasuraman *et al.* considered the issue of service quality as a function of the difference between expectations and perceived performance in line with a set of the dimensions of quality. In other words, the differences between perceived performance and the expected performance determine the overall quality of services. Quality of services and customer satisfaction are conceptually close to each other. In services quality management, satisfaction is defined as an emotional behavior after purchase, but customer satisfaction is a complex psychological and physiological process (Eren *et al.*, 2013).

Customer perspective on service quality greatly depends on primary attitudes and perceptions of customers, and their perception of quality of services and comparing these with their expectations moderates his attitude. In fact, the attitude of customers is mainly formed by performance evaluation and the difference between expectations and actual performance. Evident relationship between quality of services and customer satisfaction has been widely disputed. The researchers believe that PSQ is necessary for customer satisfaction. A number of critics argue that the distinction between service quality and

customer satisfaction, especially if service is offered continuously, is unknown. Although the prevailing theory is that the quality of service is a prelude to customer satisfaction, and satisfaction has a greater impact on customer behavior than the quality (Orel and Kara, 2014).

**Innovation:** as an idea, innovation is introduced as a product or process that is new to the company and refers to the tendency of company to develop new elements or a new combination of elements of new products, technologies, or methods of management (Hernandez-Mogollon *et al.*, 2010).

Varking (1999) considers innovation anything revised that is designed, actualized, and the organization's position against competitors that provides long-term competitive advantage (Wu *et al.*, 2015).

In fact, organizational innovation refers to the improvement and implementation of new ideas and hidden abilities in the organization, which consist of two vital parts: technology and behavior. Attention to innovation is one way of increasing competitive power in today's dynamic environment because now, everything is changing and competitors always look to increase their market share through gaining competitive advantages. In this era, one should keep up innovation in the organization to prevent recession and destruction for survival and thrive. However, there are differences between the concepts of innovation, innovativeness, and innovation capacity. The concepts of innovation and capacity for innovation start and repeat from two different stages of innovation processes. Making capacity for innovation refers to the ability of the organization to adopt or implement new ideas, processes, or products successfully (Ginting, 2015). Types of innovation can be divided into the following from the perspective of organization considering financial resources required, skills required, level of risk, speed of innovation to enter the market, and so on:

#### 1. Basic innovation:

Basic innovation refers to creating new markets.

#### 2. Innovation of development of performance (product):

When innovation happens in a product, companies try to increase the use of this new product. Development of new applications is difficult, but the pattern of return on investment in these investors is as S curve.

#### 3. Innovation of making technology renewal:

Renewal of making technology requires entering materials or equipment from other areas of the industry for the production of each new product that is basically different from the development of product because by combining some technologies, a completely new product is designed and produced.

#### 4. Innovation in naming and advertising:

Innovation in product labels includes creating the desire to buy a particular product. Research has shown that approximately 24% of product sales are related to the promotion.

#### 5. Innovation in the process:

Most of new investments are done to replace the equipment. The growth rate of these investments shows that the industry continually seeks to develop its productive capacity. Innovation in the process enables the company to gain benefits compared to competitors including speeding up the production process and increasing the flexibility of production from one product to another (Kazemi and Poor, 2011).

**6. Innovation in services:** innovation in services is providing new and challenging services to customers, so that we go beyond the needs and demands of customers (Yaşoğlu *et al.*, 2013).

**7. Innovation in process:** this is procedures and processes of production and delivery of innovative services and the use of modern technology to serve customers (Yaşoğlu *et al.*, 2013).

**8. Management innovation:** this is the use of new and innovative advertising and creative sales promotion methods to attract new customers and maintain old customers (Yaşlıoğlu et al., 2013).

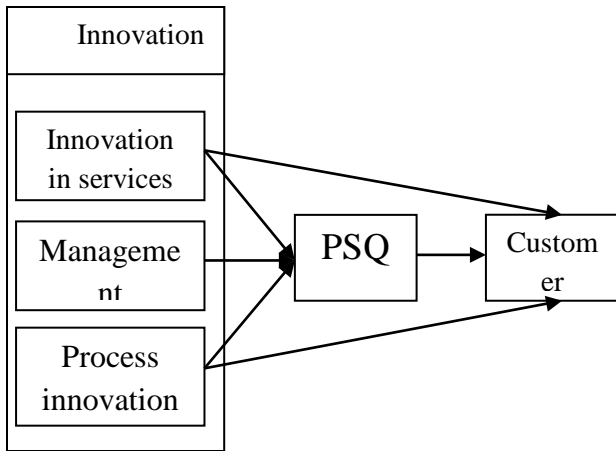


Figure 1-1) Conceptual framework of the study (Yaslioglu et al., 2013)

**RESEARCH METHOD**

Concerning objective, we can consider this study applied. The population of this study is customers of Pasargad Bank, Gilan that exceed 10,000, so they form an infinite population. We distributed 400 questionnaires randomly among customers of Pasargad Bank, Gilan. By referring to the various branches of Pasargad Bank in Gilan at different hours and days, the researcher distributed some questionnaires among existing customers in the bank. Of the 400 questionnaires distributed, 385 questionnaires were usable. In order to collect the views of Pasargad Bank customers in Gilan, we have used a 27-question standard questionnaire as a means of data collection. We used Smart PLS 2.0 for hypothesis testing and the analysis of statistical data.

**Hypotheses**

1. Innovation in services affects service quality perceived by customers of Pasargad Bank, Gilan.
2. Innovation in management affects service quality perceived by customers of Pasargad Bank, Gilan.
3. Innovation in process affects service quality perceived by customers of Pasargad Bank, Gilan.
4. PSQ affects creating value for customers in Pasargad Bank, Gilan.
5. Service innovation affects creating value for customers in Pasargad Bank, Gilan.
6. Process innovation affects creating value for customers in Pasargad Bank, Gilan.

**Data analysis**

**The correlation between variables**

Before examining confirmation or rejection of the hypotheses, we examined the correlation between variables to ensure the existence of a significant relationship between them. We have used correlation coefficient in PLS software to examine the existence of significant relationships between these variables.

Table 1: Correlation coefficients between variables

	Customer value	The quality of service	Innovation in services	Management innovation	Innovations in Process
Customer value	1				
The quality of service	0.162**	1			
Innovation in services	0.057**	0.394**	1		
Management innovation	0.092**	0.277**	0.309**	1	
Innovations in Process	0.102**	0.258**	0.354**	0.608**	1

\*\*The correlation between the variables at 0.05 level

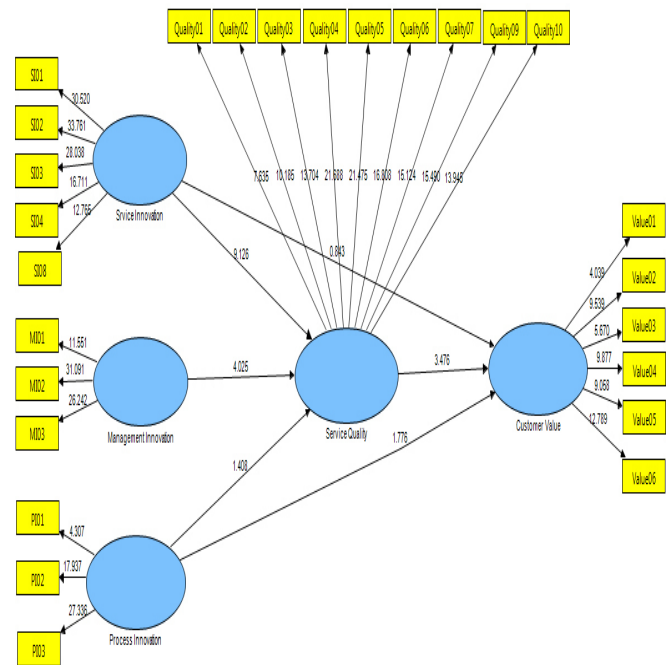


Figure 1: Factor loadings and significance coefficients of the relationships between variables

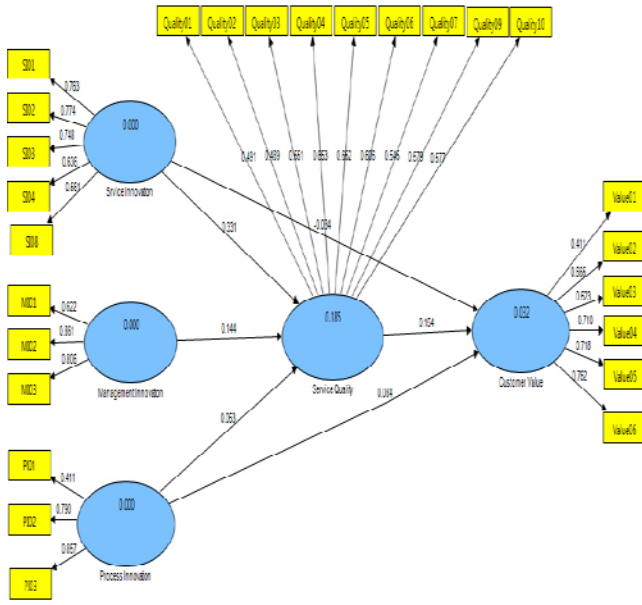


Figure 2: The path coefficients between the variables

Table 2 summarizes the results of testing the hypotheses. As the Table shows, hypotheses 3, 5 and 6 are rejected because of their significance coefficient being at the interval  $|1.96|$ , and hypotheses 1, 2 and 4 are confirmed. For example, in the first hypothesis, service innovation with path coefficient 0.33 and significance coefficient 9.13 with 95% confidence level has a significant positive impact on quality of service, and the relationship between these two variables is linear and direct. This means that with an increase in service innovation, service quality that is perceived by customers of Pasargad Bank, Gilan increases as well. This effect is 0.33 that shows if innovation in services increases one unit or improves, with 95% confidence, the quality of services perceived by customers increases or improves 0.33 unit. Results of other hypotheses can be analyzed similarly.

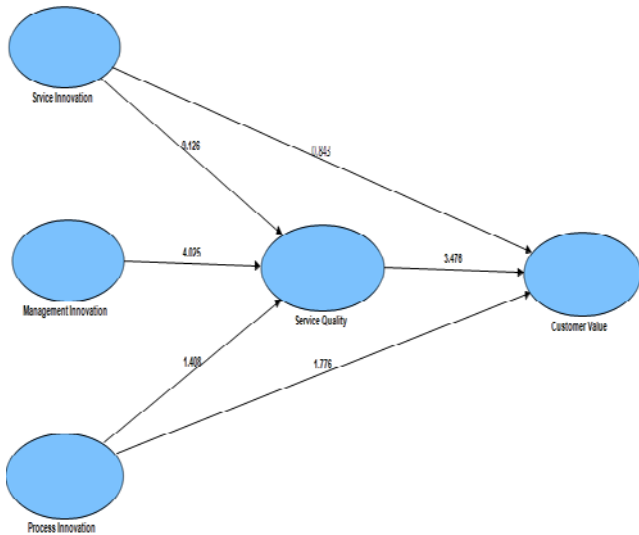


Figure 3: Coefficients of significance of relationships between variables

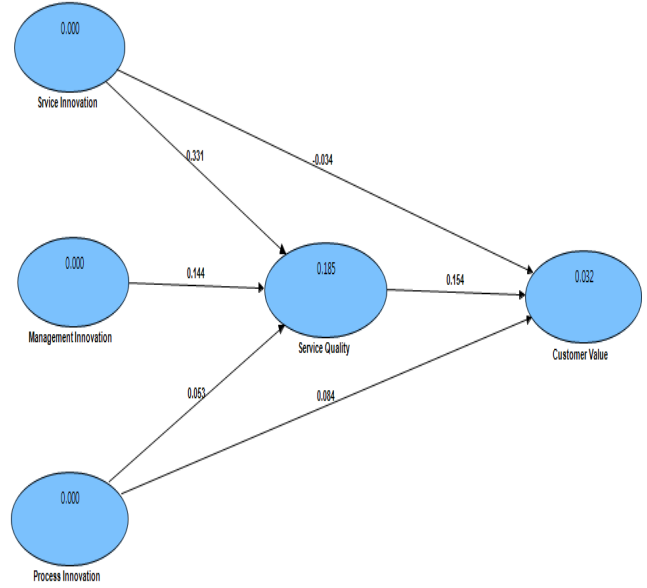


Figure 4: The path coefficients between the variables

Table 2: Results of testing hypotheses

Path	Path coefficient	Significance	Hypothesis result
1. Innovation in services affects service quality perceived by customers of Pasargad Bank, Gilan.	0.331	9.126	Confirmed
2. Innovation in management affects service quality perceived by customers of Pasargad Bank, Gilan.	0.144	4.025	Confirmed
3. Innovation in process affects service quality perceived by customers of Pasargad Bank, Gilan.	0.053	1.408	Rejected
4. PSQ affects creating value for customers in Pasargad Bank, Gilan.	0.154	3.476	Confirmed
5. Service innovation affects creating value for customers in Pasargad Bank, Gilan.	-0.034	0.843	Rejected
6. Process innovation affects creating value for customers in Pasargad Bank, Gilan.	0.084	1.776	Rejected

Table 3: Table of path analysis

Path	direct effect	Indirect effect	Overall impact
Innovation in services-quality of Service	0.33	-	0.33
Innovation in services-value creation	-	0.05	0.05
Management innovation-quality of service	0.14	-	0.14
Management innovation-value creation	-	0.02	0.02
Process innovation-quality of service	-	-	-
Process innovation-value creation	-	-	-
Quality of services- value creation	0.15	-	0.15

## DISCUSSION AND CONCLUSION

**First hypothesis: Innovation in services affects service quality perceived by customers of Pasargad Bank, Gilan.**

Given the basic model of research, in case of significance, it is observed that service innovation with path coefficient of 0.33 and significance coefficient of 9.13 at 95% level of confidence affects quality of services significantly and positively, and the relationship between these two variables is linear and direct. This means that with an increase in service innovation, service quality that is perceived by customers of Pasargad Bank, Gilan increases as well. The value of this effect is 0.33. The result of this hypothesis is consistent with the results of the study by Yaslioglu *et al.* (2013). They also concluded that innovation in services has a significant and positive impact on PSQ.

**The second hypothesis: Innovation in management affects service quality perceived by customers of Pasargad Bank, Gilan.**

Given the basic model of research, in case of significance, it is observed that management innovation with path coefficient of 0.14 and significance coefficient of 4.02 at 95% level of confidence affects quality of services significantly and positively, and the relationship between these two variables is linear. This means that with an increase in management innovation, service quality that is perceived by customers of Pasargad Bank, Gilan increases as well. The value of this effect is 0.14. The result of this hypothesis is consistent with the results of the study by Yaslioglu *et al.* (2013). They also concluded that management innovation has a significant and positive impact on PSQ.

**The third hypothesis: Innovation in process affects service quality perceived by customers of Pasargad Bank, Gilan.**

Given the basic model of research, in case of significance, it is observed that innovation in process with path coefficient of 0.05 and significance coefficient of 1.4 at 95% level of confidence does not affect quality of services significantly, so this hypothesis is not confirmed. The result of this hypothesis is inconsistent with the results of the study by Yaslioglu *et al.* (2013). They concluded that innovation in process has a significant and positive impact on PSQ.

**Fourth hypothesis: PSQ affects creating value for customers in Pasargad Bank, Gilan.**

Given the basic model of research, in case of significance, it is observed that PSQ with path coefficient of 0.15 and significance coefficient of 3.47 at 95% level of confidence affects creating value for customers significantly and positively, and the relationship between these two variables is

linear and direct. This means that with improvement in PSQ, the value of customers of Pasargad Bank, Gilan increases as well. The value of this effect is 0.15. The result of this hypothesis is consistent with the results of the study by Yaslioglu *et al.* (2013). They also concluded that PSQ has a significant and positive impact on customer value.

**Fifth hypothesis: Service innovation affects creating value for customers in Pasargad Bank, Gilan.**

Given the basic model of research, in case of significance, it is observed that innovation in services with path coefficient of 0.84 and significance coefficient of -0.03 at 95% level of confidence does not affect quality of services significantly, so this hypothesis is not confirmed. The result of this hypothesis is inconsistent with the results of the study by Yaslioglu *et al.* (2013). They concluded that innovation in services has a significant and positive impact on creating value for customers.

**Sixth hypothesis: Process innovation affects creating value for customers in Pasargad Bank, Gilan.**

Given the basic model of research, in case of significance, it is observed that innovation in process with path coefficient of 1.77 and significance coefficient of 0.08 at 95% level of confidence does not affect quality of services significantly, so this hypothesis is not confirmed. The result of this hypothesis is inconsistent with the results of the study by Yaslioglu *et al.* (2013). They concluded that innovation in process has a significant and positive impact on creating value for customers.

**Research suggestions****Proposals on innovation in services**

In connection with the first hypothesis, the results of the surveys showed that innovation in services has a significant positive impact on the quality of service perceived by customers of Bank Pasargad, Gilan. Therefore, in order to improve and develop the quality of service perceived by customers, innovation in services should be implemented better and more efficiently in the bank. For this purpose:

1. Managers and planners of Bank Pasargad should strive to make the services provided by branches of Bank Pasargad interesting and thought provoking for customers compared to competitors.
2. Managers and planners of Pasargad Bank should try to get help from innovation and idea generation in offering new services.
3. There should be planning for offering and implementation of modern banking services to customers, so that new services of Bank Pasargad are faster to the market compared to other competitors on the market.
4. Those services should be supplied that in the market are challenging to public and private competitors of Bank Pasargad and cannot be easily imitated.
5. More accurate means of data collection in the market should be used compared to other competitors, so that more accurate, complete, and update information is given to the authorities and planners of the bank compared to others. If so, they can react to the opportunities and threats faster and more intelligently.
6. Measures should be taken, so that the ability and skills of employees and their suggestions for creating new and innovative ideas are investigated, and if practical used. This should be done by citing the names and encouraging employees, so that the employees have enough incentives to offer their innovative suggestions.

**Suggestions about management innovation**

In connection with the second hypothesis, the results of the surveys showed that management innovation has a significant and positive impact on PSQ. Therefore, in order to strengthen

the management innovation in Bank Pasargad, Gilan, the following should be noted.

1. Pasargad Bank branch managers and planners should always use new methods of marketing to attract and retain customers.
2. Pasargad Bank branch managers and planners should use new and innovative advertising to attract customers.
3. Pasargad Bank branch managers and planners should use creative ways to promote sales, for example, small non-cash gifts for birthdays of people or offering special loan for valuable customers etc. to attract customers.
4. Organizational structure should be designed in a flexible manner to make fulfilling customer demands in the shortest time possible.

#### Suggestions about PSQ

In connection with the fourth hypothesis, the results of the surveys showed that PSQ has a significant and positive impact on customer value. Therefore, in order to strengthen and develop the quality of service perceived by customers, Bank Pasargad of Gilan, Ardebil, and Qazvin should pay attention to the following:

1. Pasargad Bank managers and planners should always strive to provide the best services, with the best quality, and in the shortest time possible to the customers in bank branches.
2. Improving the quality of services provided, transparency in responding to the needs and demands of customers by creating teams to meet and deal with inquiries and complaints of customers, and thanking them for logical and valuable complaints can make strengths of Bank Pasargad, Gilan appear.
3. Providing quick access to information, maintaining the relationship with the customer and the operator of service by mail, email, phone calls, the Internet, and proper in person meetings for the purpose of effective and efficient planning and decision-making

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