AN INVESTIGATION OF NEW PRODUCT MANAGEMENT AND PERFORMANCE MEASUREMENTS.
A TEST IN BANKING INDUSTRY

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AN INVESTIGATION OF NEW PRODUCT MANAGEMENT AND PERFORMANCE MEASUREMENTS. A TEST IN BANKING INDUSTRY

By

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Statement of Originality

The work described in this Final Year Project, entitled "An Investigation of New Product Management and Performance Measurements. A Test in Banking Industry" is to the best of the author's knowledge that of the author except where due reference is made.

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ABSTRACT

AN INVESTIGATION OF NEW PRODUCT MANAGEMENT AND PERFORMANCE MEASUREMENTS.
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The general objective of this study was to investigate the influence of new product management on performance measurements. Specifically, the purpose of this study was to examine the influence of firm image, brand strength, market sensing capability, product innovativeness, and new product quality on new product performance, relational performance and customer satisfaction in local banks in Malaysia. Five broadly hypothesized relationships were tested. Data were collected from the customers who have been with the bank for more than one year. The empirical findings were limited to other services industry such as hotel industry, airline industry and transportation industry. For this research, data collected through questionnaires and were analyzed by using Statistical Package for Social Sciences (SPSS) Version 17.0 for Microsoft Windows and SmartPLS 2.0. Furthermore, confirmatory factor analysis, convergent validity, discriminant validity and reliability were the test that carried out to assess the measurement model, whereas t-Value test used to assess structural model. This study determines the relationship between new product management and performance measurements. The result showed that firm image, brand strength, product innovativeness, and new product quality was
positively related to new product performance, relational performance and customer satisfaction. On the other hand, market sensing capability was not positively related to new product performance, relational performance and customer satisfaction. This study may be useful for executives to understand more about new product management such as firm image, brand strength, market sensing capability, product innovativeness, and new product quality in order for them to have a better strategy to achieve performance measurements such as new product performance, relational performance and customer satisfaction. This paper enhances both scholars' and practitioners' understanding about the influence of new product management on performance measurements.
produk baru mempunyai hubungan positif dengan prestasi produk baru, prestasi hubungan dan kepuasan pelanggan. Manakala, hasil kajian menunjukkan bahawa keupayaan penilaian pasaran tidak mempunyai hubungan positif dengan prestasi produk baru, prestasi hubungan dan kepuasan pelanggan. Hasil kajian ini mungkin berguna kepada para eksekutif untuk memahami lebih lanjut dan jelas tentang pengurusan produk baru seperti imej firma, kekuatan jenama, keupayaan penilaian pasaran, inovasi produk, dan kualiti produk baru untuk mereka menggunakan strategi yang lebih baik demi mencapai pengukuran prestasi seperti prestasi produk baru, prestasi hubungan dan kepuasan pelanggan. Kajian ini membantu meningkatkan tahap perfahaman penyelidik dan eksekutif di sesebuah organisasi tentang pengaruh pengurusan produk baru terhadap pengukuran prestasi.
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CHAPTER 1
INTRODUCTION

1.1 Background of Study

The path to create and develop successful new products was a series of difficult trials. There are many challenges that the company needs to overcome to create and develop successful new products. In recent years, there are rapid changes in customer's preferences and industry and this requires the company to manage new product development effectively. In other words, managing new product development becomes urgent and important in business environment (Park, 2010). Besides, customers have high expectations on the new products and this encourages the companies to explore more available opportunities to develop new products (Gentry & Savitskie, 2008).

New product development refers to an inter-linked sequence of information processing tasks where the knowledge about the customers' needs and wants is converted into final product design (Meybodi, 2003). Although new product development is a difficult task in business but it is one of the most important processes that use to determine the success of the new product (Clark & Wheelwright, 1995; Adis & Razli, 2009). In addition, business managers and marketing academics agree that the success in new product development is an important element for the company to survive in the competitive environment (Henry et al., 1989; Adis & Razli, 2009).
In today's competitive world, many large companies often have a high failure rate of new product development (NPD) and the company sees new product development (NPD) as a challenging tasks that need to overcome (Yahaya & Bakar, 2007). Research shows that these new products fail spectacularly with the unattractive new product introduction in the market (Euchner, 2008). In other words, the advertisement that uses to advertise the new products is not attractive and could not meet the customers' needs and wants.

On the other hand, there are many companies that still do not understand what factors that cause customers' dissatisfaction although the companies have practiced customer relationship management system (CRM) to serve the customers and this inefficiencies in customer service operations today causes the dissatisfaction among the customers (Rudolph, Tripathy & DiCapua, 2004). Thus, these are the issues that are concern by sectors such as manufacturing sector, services sector, construction sector and agriculture sector in Malaysia.

Service sector is an important source of growth to Malaysia's economy and it is also one of the sectors that are concern with the above issue (American Malaysia Chamber of Commerce, 2011). Services sector which also known as tertiary sector includes a broad range of activities such as electricity, gas and water supply, wholesale and retail trade, hotels and restaurants, transport, storage and communication, financial intermediation, real estate, renting and business activities, public administration, defense, and compulsory social security, education, health and social work and other community, social and personal service activities (Asian
Development Bank Institute, 2011; Trade Chakra, 2008). This broad range of activities is divided into two broad categories which are intermediate services and final services. Intermediate services consist of transport, storage and communication; and financial services, insurance, real estate and business services. On the other hand, final services consist of electricity, gas and water; wholesale and retail trade, hotels and restaurants; government services and other services (Economic Review, 2005).

Service sector has been attracting high levels of investments over the years. For instance, investment in services sector had exceeded the Third Industrial Master Plan (IMP3) target of RM 45.8 billion per annum since year 2006 (Borneo Post, 2010). In year 2010, Malaysia had invested RM 27.36 billion in services sectors with 2,284 approved projects to increase the percentage of gross domestic product (GDP) and also to generate more employment opportunities (MIDA, 2008; American Malaysian Chamber of Commerce, 2011). During the MIDA Annual Media Conference, YB Dato' Seri Mustapa bin Mohamed, Minister of International Trade and Industry mentioned that Malaysian economy has a strong growth rate of 8.1 per cent in real Gross Domestic Product (GDP) in year 2010 compared to year 2009 (American Malaysian Chamber of Commerce, 2011). This shows that there are increments in the contribution of service sector to gross domestic product (GDP). Moreover, services sector has also been recognize as the strong and healthy growth among the sectors with almost all of the sub sectors in services sectors records a high growth rates (Economic Review, 2005; Press Releases, 2010). Hence, service sector is the largest contributor to Malaysia’s gross domestic product (GDP) in which Malaysia needs to pay more attention on this sector (GDP) (Borneo Post, 2010).
1.1.1 Malaysia Scenario

Financial services sector is a services sector that is well positioned to respond to the challenging environment and this services sector serve as both strategic sector and as a mobiliser of funds for investment in Malaysia (Ninth Malaysia Plan, 2006-2010; Tenth Malaysia Plan, 2011-2015). Besides, financial services industry consists of activities such as investing, lending, insurance, banking, securities trading and securities issuance (Kolakowski, 2011). During the Tenth Malaysia Plan (2011-2015), financial services sector are enhancing its contribution to Malaysian economy in which it contributed 11.7 per cent to Gross Domestic Product (GDP) as at end of year 2009.

Banking industry is one of the most promising financial services industries in Malaysia and this industry has been categorized in financial services sector (BERNAMA, 2011). Due to high technology development, banks are keen to build customer satisfaction by providing better products and services in which banks has been constantly innovating in new product and one of the latest innovation that had been develop by the banks are known as internet banking (Padachi, Rojid & Seetanah, 2007). Internet banking allows banks to expand their distribution networks with transactional websites in which the customers can open accounts, apply for loans, check balances, transfer funds, make and receive payment over the Internet (Ragoobur, Ayrga & Doomun, 2010). For example, Malayan Banking Berhad (Maybank) is one of the banks that enable the customer to make the payment over the Internet. Maybank collaborates with AirAsia Airline and this collaboration allow
the customers to make their payment online in which the funds will be transferred automatically from Maybank to AirAsia (Shephard, 2009).

This new internet banking product has gained worldwide acceptance as a new delivery channel for performing banking transactions (Ragoobur, Ayrga & Doomun, 2010). Internet banking that is introduced by the financial institutions provides the opportunity to the customers to access to almost any type of banking transaction with the click of a mouse (De Young, 2001; Padachi, Rojid & Seetanah, 2007). Moreover, internet banking benefits both the banks and the customers in which the bank use the online banking system to save cost whereas the customers can access internet banking at all times and places (Padachi, Rojid & Seetanah, 2007; Poon, 2008). In other words, internet banking allows the banks to lower their operation cost and also to serve as a strategy to retain their current customers from switching to another financial institution (Ragoobur, Ayrga & Doomun, 2010).

In conclusion, internet banking products is one of the new products that provide many benefits to both financial institutions and to their potential customers. Continuous improvements in new product development process may provide company with competitive advantage and also to generate various benefits in economic, preemptive, technological, and behavioral factors (Gentry & Savitskie, 2008; Kerin, Varadarajan & Perterson, 1992; Lieberman & Montgomery 1988; Zhou, 2005). Hence, company such as banks should invest heavily in new product development in which it can be serve as a key to achieve long term success.
1.2 Problem Statement

There are many new products in the market and these new products are used to generate the future profitability for the companies. However, not every new product in the market is successful. Surveys have shown that there are high failure rate in new products in which it range from 33 per cent to over 60 per cent and this has not been improved in the last decades and the new products also fail to generate an economic return for the country (Boulding, Morgan & Staelin, 1997; McMath & Forbes, 1998; Wind, 1982; Pauwels, Risso, Srinivasan & Hanssens, 2003; Schilling & Hill, 1998; Yahaya & Bakar, 2007). Moreover, 7 out of 10 new products fail during the first 18 months to two years in the market (Cierpicki, Wright & Sharp, 2000). Furthermore, there are almost 90 per cent of the new products that introduced in the market did not reach the company’s business objectives (Balachandra & Friar, 1997; Yahaya & Bakar, 2007). Thus, this is one of the critical issues that concerns by many organization in Malaysia.

Moreover, developing relationship with customers is a crucial criteria in improving business performance of an organization. Relationship is beneficial for the company as they can enhance customer satisfaction and in turn boosts the company profits (Brookes et al., 2006). However, there are still many companies that have neglected the importance of developing long term relationship with the customers. One of the first global surveys of consumer attitudes uncovered that in every country, customers ended at least one relationship per year (Genesys, 2009). In other words, there are about 7 in 10 customers who have terminate a relationship and nearly two-thirds of the customers who have ended the relationship with the
company and turn to their competitor (Genesys, 2009). In addition, past researchers also highlights that most organization does not focus on maintaining good relationship with their customers once a business transaction is completed (Christopher et al., 1991). Therefore, this shows that there are lack of satisfacing relationship between the company and the customers (Tyler, 2002).

Furthermore, in this fierce competition environment, many companies focus on the efficiency of their company rather than on customer satisfaction (Dean & Kiu, 2002; Jamali, 2007). Companies have forgotten that a satisfy customer will increase the company’s repurchase rates, cross buying potential, higher price willingness, positive word of mouth and less switching tendency (Rust et al., 2000). Besides, surveys have also shown that higher customer satisfaction will lead to better financial growth (Anderson, 1996; Hallowell, 1996). University of Michigan Business School (2001) indicates that customers often feel disrespected and mistreated by the employees in retailers, airlines, banks and hotels. Hence, customers are dissatisfied with the employee’s attitude, overall poor service, employees socializing, slow service and not paying attention on the customers (Helms & Mayo, 2008).

Therefore, there are needs to study the relationship between new product management and performance measurements such as new product performance, relational performance and customer satisfaction in banking industry in which this study will be of interest to both academicians and practitioners in Malaysia.
1.3 Research Objectives

1.3.1 General Objective

The main objective of this study is to investigate the relationship between new product management and performance measurements in banking industry.

1.3.2 Specific Objective

The specific objectives of this study are:

1.3.2.1 to investigate the relationship of the firm image on new product performance, relational performance and customer satisfaction.

1.3.2.2 to examine the relationship of the brand strength on new product performance, relational performance and customer satisfaction.

1.3.2.3 to find out the relationship of the market sensing capability on new product performance, relational performance and customer satisfaction.

1.3.2.4 to determine the relationship of the product innovativeness on new product performance, relational performance and customer satisfaction.

1.3.2.5 to study the relationship of the new product quality on new product performance, relational performance and customer satisfaction.
1.4 Research Questions

This study will attempt to answer the following research questions.

1.4.1 will firm image affect new product performance, relational performance and customer satisfaction?

1.4.2 will brand strength affect new product performance, relational performance and customer satisfaction?

1.4.3 will market sensing capability affect new product performance, relational performance and customer satisfaction?

1.4.4 will product innovativeness affect new product performance, relational performance and customer satisfaction?

1.4.5 will new product quality affect new product performance, relational performance and customer satisfaction?

1.5 Definition of Key Terms

This section will define the important key terms that will be used in this study.

These terms include new product management, performance measurement, firm image, brand strength, market sensing capability, product innovativeness, new product quality, new product performance, relational performance and customer satisfaction. The definition of each term is described as follows:

New product management--a discipline about what the product should be and it is a middle level management function that can be used to manage a product life cycle and enables the company to make wise decisions (Windley, 2002; Komninos, 2002).