

HOW TO COLLABORATE WITH CUSTOMERS FOR NEW SERVICE DEVELOPMENT IN GLOBAL MARKETS?

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ABSTRACT

Globalization has a major impact on the practice of innovation across a wide range of service industries. Yet, only limited attention has been paid to the issue of service innovation in a global context. To address this critique of the literature a case study of new service development and customer collaboration was conducted in a multinational financial services firm marketing a variety of new services. The case study investigates the development of new services with inputs from company's customers based in India. It also traces the roles of local Indian subsidiary and local managers in developing and managing the overall innovation process.

Keywords: Emerging Markets, New Service Development, Customer Interaction, Case Studies, Qualitative Research, India.

INTRODUCTION

The growth of the service economy, which accounts for over 70% of the GDP and employment both in developed and in some developing nations, places service-related businesses at the top of the list of growth drivers and makes service innovation a key issue for a firm's success. On the other hand, globalization pressure has a major impact on the practice of innovation across a wide range of service industries. Service innovation practice is now migrating from local cross-functional collaboration to a mode of global collaboration. As a result, global service innovation is now considered a key to growth and prosperity. However, to ensure success in introducing new services in a foreign market, understanding the way services are developed in different countries is increasingly important. Countries differ in their socio-economic and cultural characteristics and a firm's native culture influences its marketing strategies (Money et al., 1998; Nakata and Sivakumar, 1996). Such differences are likely to influence how the new services are developed in different nations. Concurrently, developing countries are a growing presence in an integrated global economy and attracting attention of service firms from more advanced nations.

By placing New Service Development (hereafter abridged NSD) activities in selected international locations and by using local managers for NSD, a firm can access critical information about innovations in those regions and make direct connections with potential new markets (Eppinger and Chitkara, 2006). Thus, global innovation management is an interesting area of research. The benefits of global innovation management include greater efficiency, lower costs, access to technical expertise that is distributed internationally and developing a service suited more for global markets.

Although developing new services for global markets is key to growth and prosperity of a firm, the NSD is risky as the overall new service success rate is rather low (Cooper & Edgett, 1996). Various studies have provided empirical support for the positive link between customer

interaction and the success of a new service (Brentani, 1995; Storey & Easingwood, 1993; Cooper & Edgett, 1996). Studies of lead users, in particular those by Eric von Hippel (1986) and his colleagues, have further emphasized the positive relationships between customer interaction and new service/product success. With such a strong conceptual and empirical support, customer interaction has become a pivotal construct that affects a service firm's strategy and operation. Given the importance of global service innovation management and customer interaction the goal of this study is to comprehend further the customer interaction process in NSD from a global perspective and to propose a framework that can help service firms address various tactical issues when considering customer interaction in another country. We address this issue with a longitudinal case study of the process of finding and involving customers for NSD projects in a developing and emerging market, India. The company involved in this case study is a global service firm based in the United States that is looking for innovations for its operations in India and other Southeast Asian countries.

Our empirical study is set in the financial services industry. The financial services industry is a worthy test of the customer interaction method because of the high level of innovation in that industry resulting from deregulation and technological advancement all around the world (Brentani, 1995). In addition, this research is delimited to industrial services because business-to-business transactions in a modern service economy are more important and complex than the retail services (Athanasopoulou and John, 2004). The paper has four sections. We start with the review of extant literature related to global service innovation and customer interaction. Subsequently, data collection procedure and research method are discussed. Next, we present the key findings including implications for the service managers. We conclude the article with a discussion of limitations and future research directions.

LITERATURE REVIEW

Is New Service Development a Global Entity?

Many researchers and experts have predicted that the advancement in digital technology will change how a global firm conducts its business in various parts of the world. For example, Thomas Friedman, a New York Times columnist, in his recent book suggests that the rapid advancement of the digital technology put people all over the globe in touch as never before, creating an explosion of wealth in India and China and challenging the rest of us to run even faster just to stay in place (Friedman, 2005). The effect of this changing world can be seen in the innovation arena as well because more and more firms utilize their workers and managers dispersed around the world to collaboratively develop products and services. For example, in the tangible product sector, almost 48% of the firms in developed nations conduct engineering operation outside of their home region (Deloitte Research, 2003). In the last two months of 2005 alone, Microsoft, Cisco and Intel each announced major investments in product development operations in India, totalling \$3.8 billion (Eppinger and Chitkara, 2006). There is also rapid growth of outsourced software development and support with Indian suppliers such as Infosys, TCS, Wipro and others (Eppinger and Chitkara, 2006). Santos et al. (2004) support the implementation of a "*metanational innovation*" system: innovation process that transcends national boundaries. Two key advantages of metanational innovation are overall reductions in innovation cost and developing a higher value innovation because of the access to a great diversity of knowledge.

Many U.S service firms are now keenly taking interest in metanational innovation and using service development resources derived from their subsidiaries and overseas branches. Some U.S

service firms already have a strong culture of global collaboration and thrive on global linkages and exchanges for various business operations and practices. Yet, this phenomenon is taking off slowly in other U.S. firms because globalizing innovation is an evolution that typically takes place over a number of years (Eppinger and Chitkara, 2006). On the other hand, India has emerged as a country of immense industrial power by actively pursuing the policies of economic liberalization and privatization of its service sector since early 1990s. Since then, India has steadily grown up as a source of experienced partners. Having experienced success in outsourcing jobs such as call centers, IT and software services, many firms from developed countries are establishing their own off shore R&D facilities in India. This is no less true of financial services than of any other sectors in the U.S. Globalization and deregulation of the financial services industry have also increased the competition among financial service firms in a vigorous search for a competitive advantage. Therefore, many multinationals and U.S. financial service firms are increasingly recognizing the importance of India's service sector and its potential in world economy. Establishing metanational innovation in India and other emerging markets is thus a crucial strategic choice for service firms from developed nations.

Customer Interaction in New Product/Service Development.

Several studies have proposed a structured model for NSD, which essentially is a set of linear stages in developing new services. For example, based on Australian data, Alam and Perry (2002) have proposed a model for financial services containing 10 development stages: Strategic planning, idea generation, idea screening, business analysis, formation of cross functional team, product design and process/system design, personnel training, product testing and pilot run, test marketing and commercialisation. They suggest customer interaction in most of these 10 stages of the development process because customer interaction is associated with superior benefits, cost reductions, faster cycle time and overall success of the innovation.

The topic of customer interaction in NSD can be linked to the resource dependency theory (Pfeffer and Salancik, 1978), which is concerned about the relationship of the firm to other organizations in its business environment. According to Pfeffer and Salancik (1978), an organization can be viewed as dependent on another to the extent that: (a) the latter, i.e. customers controls a resource that is important to the survival of the former, i.e. the firm; (b) the latter holds discretion over the use of that resource; (c) there are no other sources for that resource. Resource dependency theory can be viewed as a systematic way of examining the dynamics of interaction with business customers, which of course is an important issue in virtually all new product or service development programs in today's hypercompetitive business environment.

Indeed, customer interaction in new product or service development has been the focus of intense debate in the literature. Following the seminal studies of the role of customers in industrial product innovations by von Hippel (1976 & 1978), a considerable body of research has explored the mechanism and the process of customer interaction in new tangible product development (for example Gruner & Homburg, 2000; Biemans, 1991; Voss, 1985; Parkinson, 1982). However, no real pattern of the interaction process has resulted because the studies varied widely in their elements and scopes. Yet, these studies offer a useful theoretical basis for analyzing the process of customer interaction in NSD.

For instance, several customer interaction studies merely reported that the customers were active and played an important role in developing successful new products (Voss, 1985; Parkinson, 1982). However, Gruner and Homburg (2000) studied customer interaction in more

detail and reported that customer interaction during the early stages of a development process significantly influenced the performance of new products. Therefore, they argued for intense interaction between the customers and product developers during the innovation process. Likewise in the case of NSD, Alam (2002) suggested that the intensity of service producer¹-customer interactions during the idea generation stage should be higher than during all other stages. He also suggested that customer interaction results in important benefits such as reduced cycle time, superior services and customer education. Yet, how customers should be selected and how a firm should interact with customers during NSD is less known.

Given the large amount of literature in the field of innovation from diverse disciplines (i.e. other than NSD literature), we identified a large numbers of variables that may influence service innovation and customer interaction process. However, we could not glean much about the customer interaction from a global and/or international perspective, nor could we surmise much about the potential set of guidelines for customer interaction activities in a different country and culture. Part of the reason is that much of the focus of prior research has been on studying NSD practices in North America and Europe; therefore, our knowledge of NSD and the roles of customer interaction in Asian and emerging countries is limited. For example, a recent review article does not include any NSD studies conducted in India or South Asia (Jong and Vermeulen, 2003). All in all, research on global NSD per se is sparse and recent. For this reason, it seems worthwhile to conduct a research examining the customer interaction process in an emerging Asian country such as India.

METHODOLOGY

Because little is known about NSD and customer interaction in an international context, we believe that a practitioner-and-application oriented case study could be useful in identifying variables that are central to the customer interaction process (Eisenhardt, 1989). The longitudinal case study method appeared to be the most appropriate method to identify the main sequence of events of the customer interaction process in NSD while they happen and to avoid the ex-post rationalization phenomena (Van and Huber, 1990).

Corpfin Inc.

In this article, we report a case study of customer interaction employed by Corpfin Inc. (a pseudonym), one of the leading financial service firms based in the U.S providing diverse financial services to business-to-business customers, individuals, government departments and financial institutions globally. The choice for a single case study was inspired by our concern to control for confounding and external effects due to the variability in market contexts and organizational factors. Corpfin provided a good sampling frame for developing a framework for customer interaction, because it fulfilled two major conditions necessary for our research: (a) the company was aggressively pursuing a global innovation strategy; (b) the company's NSD efforts were large enough to obtain pertinent data concerning customer interaction.

Corpfin's philosophy focuses on entrepreneurial thinking, decentralized decision making and fosters cost conscious culture in the organization. It also incorporates innovation, quality of service and employee empowerment into its every day course of business. Knowing the customers is essential to Corpfin's customer driven philosophy. Corporate strategies always place a heavy emphasis on analyzing customer behavior and finding alternative ways to reach and service them based on their unique and individual needs. Corpfin's strong global presence offers it some competitive advantages over other U.S firms with domestic operations only.

Corpfin wanted to improve its innovation efforts in South Asian nations, particularly India. The company was on the verge of a big expansion in South Asia and was planning to introduce a number of new services for its business-to-business customers. The firm had a policy of interacting with customers and obtaining input from them before introducing new services, and it had carried out several similar interaction activities in the U.S. Thus, Corpfin decided to follow a similar strategy for its overseas markets, and India was the first stop in its quest for a successful innovation. There were several competitive and environmental forces impacting the service innovation strategy of Corpfin that led to the initiation of this research project. First, despite Corpfin's dominance in the global market, the managers were concerned about growing competition from other financial institutions, particularly multinational service firms that were expanding fast globally. This growing global competition caused the Corpfin to actively search for new means to stay ahead in the competition. Second, managers were concerned that Corpfin's overall market share had become static and that to achieve growth new services must be developed. Finally, there was a growing need for new services and applications to meet the challenges of a changing industry and market due to deregulation and technological advancements in many parts of the world.

The executives at Corpfin used the recent changes in Reserve Bank of India's ruling on financial services marketing as an opportunity and began focusing the firm on organic growth, which meant increasing the customer base by offering new services. This strategy relied heavily on identifying customer needs and gaining insights into developing innovative services in each of its key markets, including India. However, to be successful, managers recognized the firm would need to adopt a new and unique approach to service innovation. It must consider the overseas market as a local entity and develop new services based on local requirements and tastes and use local resources for this purpose.

Longitudinal Field Research

As practiced widely in longitudinal qualitative studies, data collection and analysis in our research occurred simultaneously. In addition, contrary to the inductive nature of the qualitative research, our analysis entailed deductive process as well. First we outlined the key goals of the research and then identified the key players and stakeholders who would implement the research. We believe that it is utmost important to put together a very skilled and talented team to ensure the success of the project. Thus, after a thorough screening process, we identified the key players who would be involved in this research project. Three managers based in Corpfin's subsidiary in India were identified as the stakeholders. Working as a team of researchers we identified 34 business customers who might provide rich ideas for the new service. After the initial discussion and interviews, we finally selected 19 customers who had the richest information to offer and invited them to participate in idea generation workshops. In addition, we selected the customers who essentially met three conditions: the Indian managers knew them fairly well (that is, existing relationship), the customer firms in question belonged to the market segment for which the new services were to be developed (that is, their representativeness) and these individuals were involved in making purchase decisions regarding services offered by Corpfin. Moreover, we selected the customers on the basis of reputation of being an innovative firm and an opinion leader in the market. The stakeholders used a networking process to identify these customers. They contacted customers and asked them about other customers and the customers of the competitors as well who were experts and had the knowledge of the market. The respondent's details are summarized in Table 1.

Table 1
DETAILS OF THE RESPONDENTS

Occupation of the customers	Average no. of years as customers of their financial institutions	Number of participants
Retail Shop Owners	8	4
Garment Exporters	7	2
Leather Goods Manufacturers	6	2
Travel Agents	5	3
Building Contractors	8	4
Packing Material Manufacturers	8	4
	7 years (Average)	19 (Total)

These 19 customers then joined the author and three Corpfin managers for idea generation and concept development workshops that lasted about a week. The literature on both NSD and customer interaction were used to build a tentative and skeletal understanding of customer interaction and its management. This helped us seek relevant data during the interview process. We conducted semi-structured interviews¹ with the participants. We took care to ensure that the interviews covered the topics of interest and that they used their own words to describe new service ideas and concepts. During the interviews we deductively examined the input and concepts and their relationships. This workshop covered four broad areas of inquiry: (a) characteristics or needs of customers regarding the new service; (b) the problems they had with the current service and the solutions to solve those problems; (c) the latest trends in the market in regard to the service concept; (d) whether any of the customers had actually developed or modified the service to solve their problems. We posed several question to probe these four areas of inquiry. Because each question related to the new service was a broad entrée to an in-depth probe, not all interviews provided complete coverage of all questions. To broaden the inquiry beyond what was suggested by our preconceived frame, we asked for open-ended responses to questions about new service concepts. The questions were designed to elicit both facts and respondent's perception of the phenomena being investigated. We probed with follow up questions and triangulated the information from documents and company's record. Interviews were tape-recorded and extensive notes were taken and recorded in research diary. We decomposed the documentary, research notes and interview data into logical segments, which we then used deductively to verify the potential of new service ideas and their fit with Corpfin's business operations. We hermeneutically probed customer's ideas and offered cues to elicit the true meaning of the stories and anecdotes narrated by them (Thompson, 1997). After three days of regular meetings and discussions, a total of 23 new service ideas were developed. These service ideas were related to a variety of financial services that the firm was planning to develop: business insurance, cash management systems, group pension plans, novated leasing, industrial asset management, direct equity investment, money market products, mutual fund investment and stocks and securities products. One of the conditions of the Corpfin's participation in this research was that any specific details of the new services investigated in this research and the names of the participating customers and their firms would not be revealed. Therefore to satisfy this stipulation, we did not divulge much information about the new services in this paper.

The next step was to determine the quality of each idea so that the screening could be done and concept development and other subsequent stages of NSD could proceed. To achieve this goal we organized a two-day innovation retreat in a hill station near Mumbai. In this session the participants jointly developed service delivery blueprints, reviewed the blueprints, noted the strengths and weaknesses of the service concepts and commented on the cost and fees structure of the service concepts. A mock service delivery process was also developed, and these potential

customers were asked to react to the service delivery, suggest fail points and tie up all the loose ends. At the end of the retreat, only nine ideas survived and were passed on to the next stage of concept development and design. After the completion of the retreat and the workshop, we asked all the participants about the overall value of the process, and most importantly, the strength and quality of new service concepts developed. All the participants were very pleased with the new service concepts and indicated that they would be willing to pay higher bank fees and charges for it, relative to the existing service, because the new services would solve their problems better than the existing services available in the Indian market.

Next we conducted two more workshops, this time with the managers of Corpfina, including both Indian and U.S stakeholders. The purpose was to judge the relevancy of the customer interaction method for future service development initiatives. We again conducted semi-structured in-depth interviews with the managers and other marketing staff of the firm based in India and some of the top managers in the U.S. The U.S managers joined the workshop via video conferencing. They were asked to rate the relevance on a five-point scale from 1 (least effective) to 5 (most effective). The mean rating was 4.15. In this regard one U.S manager notes:

“I am surprised at such a good hit rate of new service ideas. We had conducted similar workshops here in the U.S for developing ideas for our global market but could never develop more than four or five concepts. I believe local managers (Indian) were more informed and knowledgeable about the local market and conditions and, therefore, they provided better input than others”.

Another key advantage that was noted by most of the participants was that the overall process improved teamwork for NSD and offered an opportunity to develop a rapport between Indian managers and their U.S counterparts.

In summary, management was pleased at how the innovation team applied the customer interaction method to NSD and the results it achieved. For example, before the customer interaction technique was brought into the company, Corpfina experienced a lack of growth in one of its key markets, India. Corpfina was launching new services that were successful in the U.S without taking into account the idiosyncrasies of Indian markets. Indian business customers were demanding new approaches to service offerings. For every new account that opened, another account was lost due to poor performance. To make the organic growth strategy work, customer retention had to improve dramatically.

DISCUSSIONS AND IMPLICATIONS

India leads the world in offshore IT services; Dubai has tourism and regional education centers; Hong Kong and London are turning into a growing financial services hubs; Singapore is building hospitals to serve patients from across Asia; and the Philippines is developing call centers (Baily et al., 2006). These new and upcoming “centers of excellence” mean that innovation and NSD should be a global effort. In this global marketplace a company can achieve growth by developing new services locally rather than merely exporting innovations from their New York or London headquarters. Yet, these global linkages weave through diverse economies, cross a variety of industries and involve people and process from diverse cultural background. Thus understanding the implications of diversity and complexity for NSD pursuits in global market as well as how to enrich them through customer interaction is a compelling issue for managers and researchers alike. In this research we seek to develop some understanding of NSD and the role of inter-firm customer linkages in the global context. The data patterns that emerged from this analysis are summarized in Table 2.

Table 2
DATA PATTERN FOR INTERACTION WITH CUSTOMERS

Research Issues	Key Findings
Importance of Customer Interaction	<ul style="list-style-type: none"> • Customer collaboration is a key strategy to gain insight into customer needs. • A judicious combination of external and internal sources of information is needed. • A service firm must adopt a global perspective for customer interaction and innovation • A systematic approach to search and involve customers in NSD is needed. • Customers are willing partners in NSD and provide input freely.
Customer Interaction Methods	<p>Five customer interaction methods are:</p> <ol style="list-style-type: none"> 1. Conducting an initial face-to-face team meetings for several days 2. Increasing the amount of communication among local managers, customers and U.S managers 3. Developing close relationships with customers who are experts and innovative 4. Networking with customers to identify relevant partners for interaction process. 5. Holding periodic progress update meetings.
Criteria for Customer Selection	<ul style="list-style-type: none"> • Input from customers from different cultures and countries must be obtained to ensure the success of a global product or service • Customers with whom the firm has an existing relationships provide better input • Expert customers provide rich data and input

Practitioners and scholars have suggested a number of mechanisms for improving the success rate of new services. Customer interaction is one such means for developing successful new services. A successful service innovation strategy requires a judicious combination of external and internal sources of information. As shown in this article customer interaction provides a means to access external information that can be difficult to develop via internal sources. Yet, customers from only the U.S and other developed nations cannot provide information relevant to a developing country and, therefore, a service firm must adopt a global perspective for innovation. That is, input from customers from different cultures and countries must be obtained to ensure the success of a global product or service. However, the literature is not explicit on how a U.S firm should interact with their customers in a country that is culturally and economically different. Thus, a macro contribution of this study is the explication of the concept of customer interaction for NSD. Through this study we propose a systematic approach to search and involve customers in NSD. Service managers may take note of this approach and apply it to their NSD programs in overseas markets. For example, the managers should tap local resources by recruiting customers locally and conduct idea generation workshops and innovation retreats. A few tactics critical to developing an effective interaction strategy are: (1) conducting an initial face-to-face team meetings for several days; (2) increasing the amount of communication among local managers, customers and U.S managers; (3) developing close relationships with customers who are experts and innovative; (4) networking with customers to identify relevant partners for interaction process. The networking may assist a manager in identifying customer's customers and competitor's customers as well; (5) holding periodic progress update meetings. While the initial meeting sets the stage in building trust and establishing close relationships, continual efforts to increase communications serve to reinforce and expand these behaviors that are so crucial to effective global NSD and customer interaction.

This research also found the key criteria that should be considered for customer selection and involvement in NSD process: existing relationships with the customers and customer

expertise. Based on the findings of this research we recommend that managers target customers with strong ties for the purpose of involvement because commitment and trust are very important considerations in customer interaction strategy. The customer interaction method described in this research also assumes that (1) customer input will lead to innovations because customers are a rich source of new service ideas; (2) although small in number, expert and knowledgeable customers already exist in every country and culture and only needed to be identified (instead of can be "*grown*" from the innovative effort itself); (3) customers are willing to work with the service producers as development partners. Thus resource dependency theory (Pfeffer and Salancik, 1978) should be the starting point for the firms engaged in customer interaction in NSD in a foreign market in part because this theory may serve as a guidepost for the managers in understanding relational customer-firm exchanges.

Indeed globalization is a risky and adventurous undertaking, requiring not just a change in process but also a dramatically different mind-set. For example, more and more service firms face the needs to access critical resources for NSD efforts from their customers who are dispersed around the world. Not only are these customers separated by time and distance, but they are separated by cultural and language differences as well. The challenges for a global service firm are to integrate and coordinate input of customers dispersed in various parts of the world. Global service development offers opportunities for firms to manage these challenges and compete more effectively on a global scale. Given the importance ascribed to global customers and interaction with them as a mechanism for developing new services, there is a clear need for the firms to find effective ways to manage this interaction process. Customers are fundamentally changing the dynamics of innovation. The global market has become a forum in which customers play an active role in creating and competing for value. One key feature of this phenomenon is that customers have become a new source of competence for the service firms. In this new global marketplace, firms must realize that their dialogue with their customers is a dialogue of equals (Prahalad and Ramaswamy, 2000). With the advancement of technology these dialogues can be conducted in real times among the customers situated thousands of miles apart.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

As with any study this one also has some limitations. First, the single case design presents the well-known problem of external validity and generalization of the findings. In addition, in-depth case studies may be considered very context specific. While the generality of our results must be determined by further studies and in a larger context, we believe that this initial case provides a vivid description of customer interaction in NSD in a culturally different country. Second, we do not measure success or failure of new services developed with customer involvement. Future research could examine the performance implications of customer interaction. Third, the study focuses on new services that are characterized by intangibility. It is possible that a different pattern of findings may emerge in product-based research where tangibility plays a major role. Fourth, we study only one, albeit important service industry, which again raises the issue of generalizability. The financial services industry is unique in many ways but it is also possible to make at least some tentative generalizations from financial services to other service industries. Finally, this study considered only the issue of customer interaction in NSD. Future research needs to examine additional variables of NSD in a global context, such as new service failure and success factors, NSD strategy also known as new service types or degree of a new service's innovativeness, cycle time and cost reductions and cross-functional integration.

CONCLUSIONS

The financial services industry has challenging road ahead. This industry is already experiencing the perils of increased global and domestic competitions due to the globalisation of market and ever changing technological advancements in the delivery and production of many financial services. Yet, as Santos et al. (2004) argue globalization should be seen as an opportunity, not as a problem. Just as the service customers are dictating their expectations the industry is responding. If an Indian firm can develop and market world's cheapest car only for US\$2500, anything seems possible within the realm of innovation both in service and tangible product sectors (Times of India, 2008). A prudent strategy for a firm from developed nations is to harness the innovation expertise and resources scattered around the globe and use them for their advantage. That is, corporate strategies should be as dynamic as the global environment they manage. The objective of this research is to develop a deeper understanding of customer interaction and innovation that specifically relates to an emerging market India. We believe that this is crucial to improving the state of the art of customer interaction and global service innovation management and we welcome further research in this area. All in all, many critical questions remain unanswered so we hope this research intrigues scholars to further investigate some of the key issues of NSD in global market context.

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