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**Role of individual customers in development of banking products in the context of open innovation concept and demand approach to innovations<sup>\*</sup>**

**Abstract**

The goal of the article is to identify the role of individual customers in implementation of improvements and innovative solutions in service-related banking products against the background of theoretical demands of the concept of open innovations and demand approach to innovations. It is assumed that banks use their customers as an external source of ideas while applying the open innovation models. In the case of mass segment they are mostly forums of ideas and task models based on communication on the Internet. In the segment of personal and private banking they apply presumption. Secondary study in the form of critical analysis of literature and with the use of documentary research method is performed in the paper. The method of qualitative research – *case study research* that illustrates best practices is also applied.

**Keywords:** open innovation, user-driven innovation, retail banking, presumption.

**JEL classification:** G21, M31, O31.

**Introduction**

Current conditions of operation demand from enterprises, including banks, provision of attractive, innovative offer of appropriate quality and compliant with expectations of target markets. The use of customers' opinions, knowledge and ideas is helpful in the process of broadly approached improvement of ser-

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vice-related banking products, including the complex ones of systemic character, improvement of their quality or increase in the degree of their accessibility. Activity in their acquisition and aware application of them in the processes of shaping the assortment is typical of the concept of open innovations.

Contemporary consumers, particularly the younger ones, are characterized by significant activity in buying behaviours. They are also increasingly better educated. In the period of development of modern communication technologies, it is easy to exchange information, increase the level of knowledge about terms on which products are offered or affect the shape of offer, including the level of its innovativeness. Such involvement of customers of various nature and intensity, appropriately used by the banks can be an effective way to increase customers' satisfaction and loyalty [PARP 2012, p. 6].

The article is composed of four parts. The first describes theoretical grounds of the concept of open innovations and their specific character. The second discusses the essence and advantages of user-driven innovation and its relationships with the concept of service-dominant logic and prosumption. The third part contains presentation of major forms of cooperation between retail banks and customers in the process of offer development. The fourth part includes description of mBank Forum and Bank Pomysłów BZ WBK [BZ WBK Bank of Ideas] as examples of good practices in the studied area.

## **1. Open innovations and their specific character**

In contemporary conditions of operation innovativeness approached as an ability of constant search for, implementation and diffusion of innovations is an essential determinant of company success [Pomykalski 2001, p. 18]. It is an important element of formation of competitive advantage that allows to respond to changes in the environment effectively and, thanks to searching for new possibilities, also to be ahead of them [Report 2012]. The notion of innovation can be defined in a material way, as a result, represented by a new product, service, market, production method or model of organization of business activity [Podręcznik Oslo... 2005, p. 48; Janasz and Koziół-Nadolna 2011, p. 16]. In terms of activities and processes, innovation is a series of events from the emergence of an idea, through research and development works, designing, and finally production and diffusion [Pomykalski 2001, p. 17; Tidd and Bessant 2011, p. 40]. Regardless of the definition, knowledge is the basis of creation of innovation that can be derived by enterprises from various sources.

The phenomenon of hypercompetition [D'Aveni 1995], progressing globalization, technological progress, information and communication revolution and universal networking resulted in the occurrence of a new paradigm in management of innovations described with the notion of „open innovation” [Chesbrough 2003]. It was also favoured by the shift from the stage of learning society and easier knowledge diffusion, increase in accessibility of highly-qualified workers and increase in „fluidity of knowledge”, cooperation with external specialists and growth in capabilities of external providers in the process of knowledge supply [Andrejczuk 2013, pp. 80-86]. Indicated factors resulted in the emergence of a new knowledge market that is not reserved for the company any more, but is accessible for, and applied by workers, suppliers, customers, competitors and institutions of higher education. Partnership organization of the process of providing ideas within the so-called community formed by entities that are the source of innovative knowledge is important for the concept of open innovations [Wiechoczek 2013, p. 344].

Open innovations refer to regular encouraging and recognizing of all new sources of innovations, both internal and external, as well as their integration with resources and company capabilities. In this concept, the role of external partners is not only limited to being the source of ideas on the stage of generating ideas, but it also concerns other stages of the process, including search for, research into, and selection of ideas, their further development into innovations, testing of created solutions, commercialization and diffusion of innovations [Inauen and Schenker-Wicki 2011, pp. 496-520].

Open innovations have several specific features. They can include among others, accepting the fact that external ideas applied in an enterprise gain additional value. It is also typical of this concept that an enterprise does not need to be the first in inventing something, because development of a better business model is more important [Chesbrough 2003]. Open innovations bring a lot of advantages to enterprises. They include, among others, reduction of costs of conducting research and development works, improvement in productivity, more precise market research, and optimization of offer towards market expectations, use of occurring internal and external synergies of enterprise resources and the capacity of viral marketing.

Knowledge is extensively diffused in global, networking society. Consequently, virtual communities, operating on the basis of network logic in the Internet are becoming the source of innovative ideas increasingly more frequently. According to H. Chesbrough, networking, learning society that is functioning in the period of network intelligence, the so-called wkinomy of science and art of development of innovativeness through mass cooperation, is characterized by five principles: cooperation, openness, co-sharing (knowledge exchange), honesty and correlation (mutual relationships). Co-sharing gains special significance for the concept of open innovations [Tapscott and Williams 2011, p. 32].

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## **2. User-driven innovation (UDI) – the essence, advantages and relationships with the concept of service-dominant logic and prosumption**

The key processes of creation of values in the concept of open innovations can take the form of active participation of recipients in the process of generation of innovations (the so-called user's innovations) [Helfat and Raubitschek 2000]. Its significance in the process of development of the products, their modernization and creation of innovations is exposed in demand approach to innovations (*user-driven innovation* – UDI) that originates from the concept of open innovations [Chesbrough, 2012; Han et al. 2012, p. 292]. The need to share knowledge inside the enterprise and to derive information from the environment for the purpose of adjustment to consumers' needs is emphasized there as it is important in conditions of dynamic surroundings [Piller and Ihl 2009, p. 7].

To apply the concept of UDI effectively, the enterprises, including banks, need to have appropriate technological capacity and a set of key workers' competencies in the sphere of technology use, sharing knowledge and creativity. Involving consumers in innovation process and improvement of products also often requires organizational and marketing changes [Rosted 2005, p. 48]. Financial knowledge and customer skills, positive attitude of client to the new model of cooperation and their real activity are also important determinants [Frączek 2013, p.119]. They, in turn, depend on, among others, an individual attitude to innovations that is determined by personality features and also social environment in which a consumer functions.

Development of information technologies that provides consumers with easy and fast access to the product or service, as well as a large amount of information about them contributed to increase in interest in demand approach to innovations. An interested customer easily obtains necessary data about offer details, prices or opinions of other people, including strangers. Thanks to this, buying decisions can be made in a relatively more aware way. Consumers' demands also grow, and this makes enterprises look for innovative solutions.

UDI concept lets enterprises reduce the costs of development and implementation of innovations on market, or improvement of offer and growth of income from sales, which, apart from financial profits, also increases competitiveness. It also ensures better communication with customers and better understanding of their needs. This, in turn, favours establishment of new relationships and regular use of knowledge and experience. On the other hand customers can identify themselves with the offer more fully thanks to participating in its creation; they take advantage of individualized and complex service process, some-

times they get products or services unavailable on market and they increase their prestige [OECD 2008, p. 22; Piller and Ihl 2009, p. 7; PARP 2012].

The role of customers in the process of offer development can also be noticed in the concept of Service-Dominant Logic of Marketing [Siemieniako 2009]. In this developing paradigm of service marketing, S.L. Vargo and R.F. Lusch [2004, pp. 4-17] emphasise, among others, the fact that enterprises present suggestions of value that is always co-produced by the customer. This means that the perspective of service dominance is inherently oriented on the customer and it has relationship nature. The process, consumption and interaction are particularly important here.

According to Ch. Gronroos [2007, pp. 147, 182], consumer perceives production process as a part of service consumption and not only as a consequence of this process. As a result of simultaneous occurrence of consumption and production, in service marketing the customer often becomes a service co-producer and consequently also a resource in this process. This approach is close to the notion of prosumption, which is the process including participation of individuals or organized groups of prosumers in activities of creation of a product for their own use [Toffler 1997].

Prosumers participate in creation of new product or quality solutions, but in contemporary meaning, they are also consumers who have extensive knowledge about the offer they take advantage of while making buying decisions. They also share this knowledge with others, particularly through Internet, where, while giving positive or negative opinions, they thereby take part in creation and promotion of products and services of selected brand [Corporation Essvale 2011, p. 78]. Here we can speak about inter-prosumption that occurs between a group of prosumers and an enterprise, and takes the form of cooperation via social networking portals for the purpose of development of new or improvement of existing products or services [Szymusiak 2013].

### **3. Forms of cooperation of retail banks with customers in the process of offer development**

Customers of banks can be involved in consultations concerning innovative projects, or development of products through traditional forms. They are marketing studies conducted by enterprises with the use of the method of observation, individual and group interviews, surveys or focus groups. They can be devoted to analysing customers' opinions, level of their satisfaction or suggested improvements or ideas for innovations. However, banks apply technological possi-

bilities offered by Internet for the purpose of use of knowledge and creativity of customers interested in this form of cooperation increasingly more frequently. It allows for involvement of a significant number of people in generating new ideas or in solving problems. Thanks to development of WEB 2.0 customers of banks establish direct relationships with each other. They have increasingly larger impact on the shape of services thanks to the possibility of verification and assessment of standards of the offer quality and service [Guzek and Ślęzak 2012, p. 12].

Cooperation of banks with individual customers in the process of offer development can take the form of one-direction process of acquisition of ideas from scattered sources, or a bi-directional process of creation of innovations on the principles of partnership. In the case of the first type of cooperation transfer of knowledge mostly takes place from a particular virtual community to the bank. It includes forums of ideas, task models and models based on mass customization among others. In the second case knowledge exchange has a bi-directional nature, e.g. platforms of participation and *Open Source*-based models that are less useful for banking sector [Sopińska 2013, p. 292].

In the mass sector, the banks notice growing degree of customers' presence in social networking media and approach them as an important channel of communication with consumers [Kieźel 2014, pp. 25-26]. Internet forums and blogs are particularly important here. The users can present their ideas concerning improvement of product, services or processes of a particular bank on forums. Participation in them is voluntary and usually is not associated with any compensation. The bank determines the areas in which forum users can suggest ideas, and initiates global „brainstorming” on the Internet. Published ideas are visible for all users who can assess them and comment on them, and they can even join in teams for the purpose of their further development. However, decisions about implementation of a particular idea are made independently by the bank [Kuchciak 2012, p. 352]. Developed forum is functioning on mBank Internet webpage (compare item 4). On the other hand, task models consist in commissioning tasks to virtual community on the basis of the principle of offer request of proposal or contest. It is performed via existing own Internet page or Internet platform created specifically for this purpose. Performance of the task is paid. Internet platform Bank Pomysłów BZ WBK [BZ WBK Bank of Ideas] is functioning within such a model (see item 4).

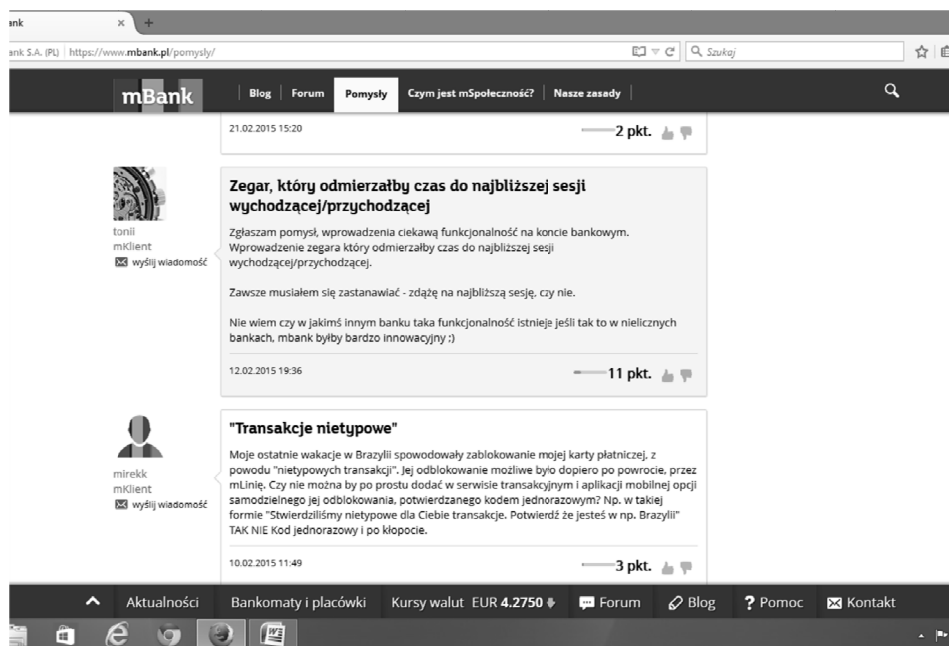
Considering a specific character of service-related bank products, relatively large involvement of customers in creation of offer occurs in the case of packages for wealthy customers who are provided with services within private banking and, to a certain degree, within personal banking. Particularly the offer for the first group of consumers is shaped within open innovations and with customer's

participation. Its systemic character means that specific elements of the offer often come from several entities and can be provided in the form of individualized packages [Kieźel 2010, pp. 84-91]. In this case, the bank takes into consideration the needs of individual customers and their expectations concerning some constituents (e.g. the offer of art banking adjusted to individual preferences but also to the level of accepted risk). Due to a specific character of the target group, banks cooperate with customers directly, in „one to one” structure. This ensures demanded level of discretion and quality. This approach corresponds to implementation of the model of open innovations that is based on customization. Its consequence is the emergence of personalized composition of values adjusted to the needs of a particular customer (usually on the basis of solutions offered by the bank).

#### **4. mBank forum and the platform of Bank Pomysłów BZ WBK [BZ WBK Bank of Ideas] – case research**

Customers can communicate with people on the forum of mBank webpage within the so-called *mCommunity* [www 3]. It is formed of *mKlienci* [*mCustomers*] for whom mBank forum is a source of knowledge about banking and the place where they can ask questions and suggest non-standard solutions. *MRadni* [*mCouncillors*], make the second group. They are customers and people invited by the bank to give advice and provide assessment to selected issues associated with development of offer and mBank activity. *mRadni* [*mCouncillors*] have access to confidential information associated with plans of the bank, they assess selected elements of offer as first and their voice is important in works associated with improvement and expanding services. There is also a *Blog* of educational character with current news and information important for the customers operating on the platform. There are discussions held with authors of articles published there. This increases their value and enables the customers to exchange their experiences. *Pomysły* [*Ideas*] are an important section where customers present suggestions for improvement of an offer or indicate its weak points. These suggestions are also put to assessment by other users (see Figure 1).

**Figure 1.** Examples of ideas suggested by mBank customers on the website together with grading scale (screenshot)



Source: [www 4].

Bank Pomysłów BZ WBK [BZ WBK Bank of Ideas] is an Internet platform that was created in February 2009. The idea of its work is based on functioning of a community that can freely and spontaneously express themselves on the official page of the project on the subject of categories listed by the bank. The platform allows for suggesting improvements or new solutions aiming at making services provided by Bank Zachodni WBK Bank better. Every logged-in user also has the right to report errors (defects or improper functioning of information systems, e.g. improperly working references, misprints, etc.), vote for ideas of other people, add comments and opinions as well as take part in contests and surveys (whereas it is not an advertising channel). Additionally, service administrators give access to the function of linking Bank Pomysłów [Bank of Ideas] account with Facebook. This allows for informing friends from the portal about activity in BZ WBK service [www 1].

After suggesting a new idea, the user becomes its creator and may get a reward (prepaid card of the value of PLN 100 is a single award). Ideas that are evaluated as best in the service or the ones that is most interesting for the bank are assessed by workers of Direct Banking. The ideas are classified in six categories:

- implemented – works are being conducted in the bank for the purpose of its implementation,



- consulted in the bank – analyzed in an appropriate bank unit,
- partially implemented – one of the elements of the idea has been implemented,
- rejected – the bank does not implement the idea,
- functioning – the idea had been implemented before it occurred in the service.

The ranking that shows users who suggested the largest number of suggestions or the most valuable ideas that have been implemented, and also the largest number of comments [www 2] is also available. In May 2010 attributing ranks to particular people, e.g. an initiator, an innovator or a comment provider was introduced. In this period the function of *Wyzwania* [*Challenges*] also occurred. Its aim is to announce contests associated with promotional actions or solutions of a particular problem. Bank Pomysłów BZ WBK [BZ WBK Bank of Ideas] service enjoys large popularity. Since it was started, 9236 users have registered in it, 5163 ideas have been suggested and 10 284 comments have been made<sup>1</sup>.

## Conclusions

Innovations and ideas concerning development of banking service-related products may have a lot of various sources, of both external as well as internal nature. Current and prospective bank customers are a valuable source of innovations. They can give advice about their shape or future changes. This facilitates both reaching the aware and unaware consumers' needs and this reduces the risk of implementation of modifications that do not respond to their real needs and demands.

The concept of open innovations and the concept of *user-driven innovation* (UDI) that derived from it, prove involvement of customers in the process of creation of innovations and improvement of products. Nowadays thanks to the use of modern, interactive forms, based on modern technologies, e.g. Internet forums, consumers are involved in consultations concerning innovative projects. Banks apply them mostly towards mass segment customers. On the other hand, considering customers of personal and private banking, banks strongly emphasise individualized involvement of the segment in the process of prosumption. It aims at personalization of value which is similar to customization.

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<sup>1</sup> As of 1.08.2015.

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