

Title : The Relationship between Service Innovation and Loyalty  
Vendor Selection Process  
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Course : MSc in Management of Information Systems  
Year : 2016  
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## **Abstract**

This dissertation investigates the relationship between service innovation and loyalty during the vendor selection process of companies operating in Indonesia. A number of studies examine service innovation, but few refer to firms based in Indonesia or focus on the impact of service innovation when it is implemented at the procurement level. Thus, this study tries to figure out how several types of service innovation affect decision making.

The quantitative data was gathered through questionnaires given to 35 procurement managers, and it is supported by qualitative data from semi-structured interviews with 5 managers. Over the past three years, service innovation has come to be seen as an integrated part of existing criteria for the vendor selection process. The survey reflects that core service innovation is the most common service innovation practice implemented by vendors. According to the survey, 15 of 35 vendors perform core service innovation more than half time, which makes the customer satisfied. Service innovation primarily affects quality, with the highest level of importance ranked at 7.64. Furthermore, managers reported that good core service innovation helps them manage the process, the price, and the delivery speed in order to achieve their company's goals.

This study also found that customer satisfaction significantly correlates with the tendency to endorse and to buy the same product. However, there is insignificant correlation between customer satisfaction and the tendency to buy different products.

According to the research findings, a number of recommendations are proposed to enhance service innovation in the vendor selection process. These include the following: (1) Vendors must be aware of the actions and activities of their current customer, especially regarding their core service, without neglecting opportunities for future innovation, and (2) Indonesian companies should direct more of their capabilities toward promoting products that their customers have never used.

**Keywords:** Service innovation, vendor selection process, customer satisfaction, loyalty