"A STUDY ON INNOVATIVE MANAGEMENT INBANKING"

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ABSTRACT

This article analyses theoretical background of innovation and frameworks to guide managers in banking towards a holistic approach for successful innovation management in a highly dynamic and competitive business environment. We aim to provide a holistic viewpoint by eclecticism in review of multiple approaches. With regards to a holistic perspective on innovation management in banking, the paper provides strong foundation to better understanding the dynamics in banking and facilitates exploring of future business opportunities for sustainable competitive advantage in banking, which is particularly significant for this sector. The aim of this paper is to extend and deepen the theoretical background of innovation and to provide an overview of conceptual frameworks for innovation management from holistic perspective to facilitate discovering future business opportunities for sustainable competitive advantage in banking industry.

1.1INTRODUCTION

Banking sector is facing the numerous challenges in recent decades as a result of mainly external forces that are changing the market at high speed. Phenomena such as: volatile business environment, dynamic customer needs regulatory pressures, rapid technological development, fierce competition and shorter product and service life cycles are trends that shaping banking sector in the 21st century. In order to sustain Competitive, banks need to understand these trends and to redefine existing business strategies without any delay. Innovation is widely accepted as the core of a competitive economy, taking into account that has always represented a key role in sustainability and development of any organization, as an inseparable part of organizational ambidexterity. Innovation implies a set of knowledge and actions that leads to creation of new products, services, processes and, or expansion existing ones. As such, innovation is recognized as one of the competitive forces of an organization. Also, it has been argued that organizations may achieve a better business performance with the clear and unambiguous innovation strategies. Depending on how well organizations set up and implement product and/or service development activities and thus accomplish continuous innovation success is influenced by their organizational innovativeness.

In the last half-century, many researchers have produced an extensive scientific overview regarding the innovation. Some studies are based upon innovation typologies such as technological innovation, product and process innovation , service innovation and strategic innovation , while some studies are focused on economics of research and development, innovation diffusion and innovation output . Many theories such as institutional theory, cognitive theories, transaction cost economics; socio-technical approaches, market orientation and resource-based view theory have provided important theoretical findings to the innovation theory. Also, research findings on contributing factors to successful / failed innovations in financial services, approaches to new product development or customers' involvement in the development process have contributed to the innovation theory and practice in certain aspects of service innovation. The aim of this paper is to extend and deepen the theoreticalbackground of innovation and to provide an overview of conceptual frameworks for innovation management from holistic perspective to facilitate discovering future business opportunities for sustainable competitive advantage in banking industry.

1.2 INNOVATION IN BANKING SECTOR

The lines dividing competing banks are becoming progressively indefinite, exceptionally with regard to the products and services offering. Accordingly, it becomes extremely challenging for the banks to obtain differentiation advantage over competitors, taking into account competitors can easily imitate. Consequently, competitive edge is based on the ability to provide "strategic services that are tailored to the unique requirements of clients in a timely fashion". Many authors argue that innovation represents an additional means by which banks may straighten out market performance and achieve competitive advantages at the financial market.

Innovation in banking sector is acknowledged as an influential factor that basically changes economics of banking and the financial system in general. Also, it has been argued that innovation has the power "to enhance the efficiency of the financial systems in the performance of its core functions", and accordingly to significantly contribute to the economics. Financial innovation is defined as something new that brings cost reduction, risk reduction, and provides advanced products, services and instruments that fitting the financial system stakeholders' requirements.

1.3 Types of innovations in banking

Previous literature on the type of innovation in banking differentiates areas of innovation on product innovation, process innovation, and risk-shifting innovation. In addition to this, John White, America's Banking Lead of the Institute for Business Value extends the innovation types in banking to the operations innovation, business and enterprise model innovation. Some authors state that most of recurring types of innovation are product, process, and administrative, technical, radical and incremental innovation.

1. Product innovation includes new products or services introduced by a bank to meet customers' needs. Banks that are active innovators of products use organizationalsystems substantially different and more suitable for developing new products in comparison to the less active product innovators banks. "Active product innovator banks have also progressed considerably in opening up traditionally tight operating structures in order to initiate product innovation".
Examples:-

(a)Growth in prepaid cards: The Federal Reserve Payments Study conducted in 2013 shows prepaid card transactions now equal 20 percent of debit card transactions and are by far the fastest growing payment segment. Yet community and regional banks cannot underwrite their own cards as large banks can and are forced to rely on vendors for the level of innovation they can deliver with prepaid cards. Working with prepaid vendors can generate little revenue, and for most that have tried, success has been minimal.

(b) Growth in online and in-store payment alternatives: Consumers want to be in control, and using PayPal, as it states in the new advertising or retail alternatives like the Starbucks Card gives them more control. It assures a compromised transaction does not create access to their entire bank accounts. They willingly have additional payment accounts to use in conjunction with their checking accounts. Community and regional banks can easily offer and set up such an additional payment "debit-only" account on legacy systems and link it through online banking to a customer's main account.

2. Process innovation implies new elements introduced into a bank's operations. Banking sector needs a revolutionary approach to reduce time to market. Accordingly, business has to be viewed not in terms of functions or products, but rather as key processes. Process innovation incorporates the employment of a business process view with the utilization of innovation to key processes to achieve large-scale cost reduction and developments in flexibility and quality at service level.
Examples:-

(a) Outsourcing in the Indian Banking Industry**:** While there were some apprehensions about outsourcing, there were also banks such as HDFC Bank, Bank of India and Punjab National Bank who shared their experiences about outsourcing and its rewards. BinduMadhavTikekar, Senior Vice President & Regional Head - Wholesale banking Operations, HDFC Bank talked about the rewards in the form of cost effectiveness, reduction in technical staff and low implementation and operational costs.

3. Administrative innovations include organizational structure and administrative process. This type of innovation represents the innovativeness that are indirectly related to the
Organization's basic business operations, while significantly influences a management systems.

Examples:

1.4 Innovation culture in banking

Most organizational scholars perceive organizational culture as powerful weapon to achieve better business performance and enable long-term effectiveness of organizations. "Creating a more innovative culture requires a change in the system, because people's beliefs about innovation are related to beliefs about other aspects of the system".

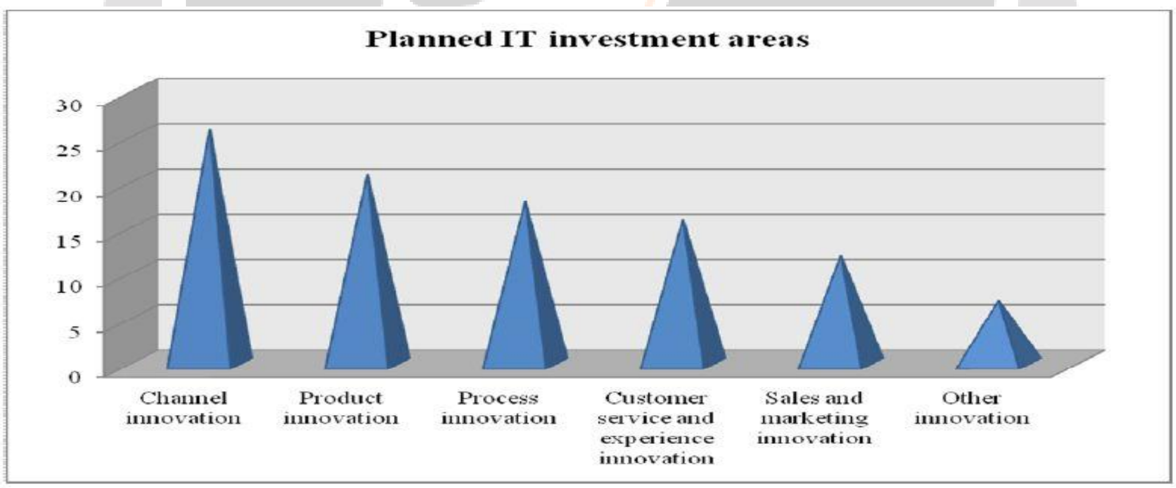
Leading organizations cherish an innovative culture and entrepreneurialism by having strong support from strategic management and structured internal processes which promote networking, collaboration and risk-taking among employees. Also, these organizations have a clear performance management structure measures and rewards for desirable behaviors which encourage innovation. The innovative culture within an organization incorporates an innovative vision and leadership, style of management, development of idea creation, flexible organization-onal structure and advocates organizational support for innovativeness

Development of innovation culture in banking sector, and particularly in large banks represents a challenge task to the strategic management, since banks have to have strong focus on risk management and to take into account regulations when innovating. Also, innovation culture development implies a set of activities with strong support of senior management and a lot of time to innovative culture flourishes.

1.5 Technologies and innovations in banking

Information and communication technologies (hereafter: ICT) represent a strategic competence and significant driver of change at most companies since the end of the 20th century. The role of ICT evolved over the last 20 years. Traditional "back office" function is shifting toward a more "strategic" role enabling both, supporting existing business strategies and shaping new ones.

Over last few years, there is a consistent trend showing that banks are more innovative in distribution channels than in other areas of business. Also, based on survey results, the highest priority of IT investments in the forthcoming period will be in channels (26%), followed by products innovation (21%), while process innovation is in the third place of priority with 18%. Customer service and experience innovation, sales and marketing innovation and other innovation have lower priority of planned IT investments. Planned IT investment areas are presented in Figure.



Planned IT investment areas in banking sector

Overall, innovations in terms of technologies will represent investments with the capabilities for banks to launch products and services faster, with the features such as personalized products using multiple channels. "Enterprise-wide systems can support these capabilities, and a componentized approach to deployment of these systems can reduce risk and make the exercise more practical"

TOWARDS A HOLISTIC APPROACH TO INNOVATION MANAGEMENT IN BANKING

Innovation management represents a vital process for banking sector. Taking into account that innovation process encompasses a number of business activities undertaken to carry out the innovation into market, it has been noticed that in the extremely volatile and uncertain business environment, innovation management requires new forms of

managing the process. Accordingly, a holistic and systematic approach to management innovation along with the development and adoption of effective implementation mechanism and structures, are elements that should be the basis for managing innovation to create significant improvements in the value creation to all corresponding stakeholders. Moreover, effective external linkages focused on generating a portfolio of ideas should be in the focus of any organization, yet banking particularly.
A holistic observation connects theme of this article with the trend observed by Hagel and Singer, where most large corporations comprise of three bundled, but essentially separate parts:

- Customer relations management
- Product innovation
- Infrastructure management.

2. CONCLUSION

As the global marketplace is characterized by intensive political, economic, social, technological and demographic movements, change became a ubiquitous and decisive, creating equally possibilities and threats to the banking sector. Accordingly, a holistic approach to management innovation provides strong foundation to better understanding the dynamics in banking and represents a valuable instrument to face the challenges in volatile business environment.
Many authors argue that competing on innovation differentiation facilitates strengthening position at the highly competitive marketplace. To achieve better innovation performance in banking, integrated drivers such as excellence, simplicity, sociability, satisfaction, differentiation, reparability, innovation speed, technology use, product fit and innovative culture should be incorporated into an organization and all areas of banking business.
There is no doubt that traditional approaches to innovation management in banking are no longer feasible. Consequently, new forms of managing innovation with a holistic view and systematic acting, along with the adoption of effective instruments and structures should be carried out in banking to create superior value to customers and stakeholders, respectively. Shifting from linear to nonlinear innovation processes, continually incorporating internal and external knowledge in the innovation process, consciously managing knowledge flows, intensifying partnerships with external stakeholders, creating a customer-centric organization and adopting the strategic innovation framework are leading principles of managing innovation, aiming at building sustainable competitive advantage and developing sustainable growth in banking.