

Chapter 4.7

Innovating through the Web: The Banking Industry Case

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ABSTRACT

In recent years, the financial services industry has been witness to considerable consolidation (Berger & Udell, 2006; De Nicolò, Bartholomew, Zaman, & Zephirin, 2004; Figueira, Neills, & Schoenberg, 2007) and organizational progress in order to sustain two main objectives: efficiency and commercial effectiveness (Epsten, 2005; Sherman & Rupert, 2005). In order to sustain customer-oriented and efficiency strategies, banks have started to explore new ways of conducting their business, introducing areas of innovation in their services, practices, and structures to offer the most complete array of services possible (Quinn et al., 2000). On the other hand, new services and products drive retail banks to explore new ways of producing or delivering these novelties. This is true especially for Internet banking services that offer services to customers 24/7, and it becomes clear that adding new services, that is, trading online or bill payments, is easily and quickly geared towards improving commercial effectiveness. The following chapter aims at describing to what extent the Internet has developed new services and businesses, and what are the main figures of the phenomenon in Europe. Moreover, the Internet has introduced new coordination processes within each

financial institution. Let us think about Intranet portal, content management tools, and business process management suites, which are now quite spread in banks due mainly to their technological ease-of-use. Thus, Internet is representing an innovation wave extremely relevant for the financial industry as a whole, and the effects on banks' performance is emerging. What do we expect in the near future? In all probability, the usage of Web-based application will be bigger and bigger also in other contexts of the bank processes, even if some risks could occur when clear strategies and change management practices do not direct the innovation.

INTRODUCTION: INNOVATION AND WEB BANKING

The banking system is undergoing remarkable strategic and organizational change processes, which will consolidate and spread even in the future. Such changes are not to be considered as a contingent change in the design and development criteria of the business, but they point out an innovation character which extends far beyond those boundaries. The application fields of innovation criteria are numerous (e.g., technological, organizational, commercial) even though two main critical issues often hinder

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the creation and spread of innovation: a) the origin of innovation, that is, the characteristics of the innovation source; and b) the possibility to know beforehand the effects of innovation and to keep its sustainability in the long run.

With reference to the subject of the origin of innovation, the most traditional theoretic version counters the organizational process innovation with the innovation of product and service. "Product innovation is given by the introduction of a new product or service to meet the market request or a particular external customer, while process innovation is defined as a new element which is introduced into the organizational processes in order to produce a product or to distribute a service" (Damanpour & Gpalakrishanan, 2001, pp. 47-48). Organizations develop product or service innovation in order to increase their market shares or to improve their strategic positioning, while they innovate in the process in order to achieve economies of scale and increase profitability (Utterback & Abernathy, 1975). The innovation of the first type allows the development of the first phases of the life cycle of a product/service, therefore it involves relevant investments and high risks. On the contrary, organizations that operate process innovations generally develop themselves at the time in which the product/service is in a maturity phase, therefore in the long term. For this reason, process innovation generally requires less investment (Anderson & Tushman, 1991; Barras, 1990).

Moreover, by overcoming the dichotomy between product/service innovation and process innovation it is possible to consolidate an approach which takes into consideration the combination of both drives within an innovation policy (See Figure 1). Therefore, both product/service and process innovation may be combined and may generate added value within a short period and with minor costs (board 3). Therefore, in some cases, the ability to innovate is measured both in the product/service part as well as in the process one. The convergence of the innovation strategic approaches is ensured by organizational

mechanisms which have the role of coordinating and managing skills, relations, and innovation processes as a whole.

With reference to the second critical issue source, managerial literature associates to innovation the characteristics of "radicality." An innovation is radical when its adoption process over time develops in nonlinear maturity phases, characterized by times of performance growth on discontinuous effects. The main obstacle in the innovation management is given by the difficulty of previously predicting moments in which a performance leap and the relevant extent of the performance growth will take place. The effects of innovation may be even more uncertain if the innovation recipient is a little controllable, being it external (e.g., the customer). As a matter of fact, the lack of control over the external party prevents knowing the cause-effect relationship of the leverages affecting the innovation adoption process. Such leverages may also be generated or limited by solicitations which are outside the bank-to-client relationship, difficult to foresee and to manage.

All the above mentioned introductory considerations may be useful in evaluating one of the main innovation areas developed by the banking industry over the last 20 years, that is, the Web.

As a matter of fact, the introduction of this technology immediately generated a great application interest from financial institutions and was directed mostly towards:

- a. Development and management of both relationships with the outside (i.e., stakeholder and clients) and the inside (i.e., cooperators and employees), through the use of the Internet and the Web as innovations in the publication and circulation of contents or services.
- b. The development of "core banking" applications and information systems in Web-based environments characterized by integrability and pace of important achievements.

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