

Chapter 8

Innovation in the Indian Banking Industry: An Exploration of the Evolution, Motivations, and Effects

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ABSTRACT

The purpose of the chapter is to discuss the evolution of the Indian banking industry and the role of innovation within the industry. It explores the motivations for innovation, types, actors involved, investments made and protection issues of banking innovations. The study showcases the current situation while also instigating future possibilities of research for the topic. To meet the objective, data was obtained via interviews with management representatives of 5 Indian banks. Given the changes witnessed by the Indian banking industry since independence and after the liberalization phase in 1991, innovation in Indian banking is seen as a fit solution for addressing the increased competition in this sector. Innovation is seen as important to create differentiation and respond to evolving consumer needs. Given the paucity of academic literature on innovation in Indian banking, this exploratory study can be taken as contributory to academics and research for this topic.

INTRODUCTION

The global banking industry has come a long way in terms of its evolution for service delivery and efficiency. It has faced rapid changes especially with the integration of technology. In the past banking was highly regulated but increasing

deregulation has added to the competitiveness and aggression of the industry. Tucker (2001) identified that in order to survive in a highly competitive environment it is important to maintain sustainable growth and innovation can be a very potent tool for survival and success. However innovation as a concept may be

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understood differently depending on the need to integrate it in the business model. It would also depend on who is designing the innovation, the kinds of resources involved in the innovation activity and finally the perceived and actual benefits arising from the implementation of the innovation in the business strategy. Since there are a number of perspectives attached to the initiation and implementation of innovation it is essential for the organizations to locate potential sources and attempt to have optimal benefit from them (Darroch and McNoughton, 2002).

A review of the available literature on this topic identifies the need for more academic information on the topic. When examined for the Indian market, it was observed that there is an acute paucity of relevant research and discussion regarding the role of innovation for the Indian banking industry. Hence, the purpose of this chapter is to discuss the role of banking in the Indian economy, its relationship with the Indian consumers and to explore the concept of innovation within the Indian banking industry. The discussion is based on primary and secondary sources of information that elaborate on the nature of innovations functional in banking, resources used to create the innovations and the overall position of innovation in the Indian banking industry. The interviews specifically inquire about investments done by banks in Innovation and product development, identified reasons for innovation, actors involved in the innovation process, usage of the innovation in contemporary banking, stages involved in the innovation process and the protection of the innovation. In doing so, the attempt of this chapter and research is to contribute to the understanding of the relationship between innovation and banking with a specific focus on the needs and demands of the Indian market.

LITERATURE REVIEW

Innovation and Service Firms

Innovation has been a topic of interest since the earliest theories of Schumpeter (1934, 1942), Myers and Marquis (1969) and Abernathy and Utterback (1978). Schumpeter proposed that innovation is the ultimate source of competition and economic growth and therefore, important for research. Myers and Marquis (1969) defined Innovation as a process of several interrelated sub processes leading to the development of a new market. Nelson and Winter (1982) focused on the concept of innovation and diffusion in which the emphasis laid on the fact that innovation was characteristic of the environment in which it was embedded. In more recent times, Trott (2011) defines innovation as 'the management of all activities involved in the process of idea generation, technology development, manufacturing and marketing of a new or improved product, process or equipment' (pg.15).

Over time, Innovation was categorized into various types such as product, process, service, marketing, organization and management. Several insights on innovation emerged such as those proposed by von Hippel (1988) in which he elaborated in length on the sources of innovation and categorized them as user led, manufacturer led and supplier led innovations. Hence the functional source of innovation has been taken as a critical point of reference around which the overall evolution of the defined industry and/or service could depend upon. In another insight it was found that some firms placed more emphasis on the development of their own ability to innovate as independent from the need to protect their innovations (Teece et.al, 1997). It was also observed that the firm's strategy on innovation was a time dependent phenomenon and it evolved with the needs of the firm and the internal and external conditions of the firm. Lun-

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