



# INNOVATION - WORTHY OF INCORPORATING INTO BANK'S DNA

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In an increasingly uncertain and competitive business environment, banks are taking on far more strategic roles in steering their organisations safely through the tight financial market, complex regulations and dynamic trading conditions. In today's business world, the mandate for innovation is inescapable. A bank which does not adapt to fit changing realities risks losing its position in the market. Innovation is also generally considered as the main engine of business growth in the financial market. By introducing innovation into practice we may obtain products/services with improved quality characteristics, quality service, new processes, more efficient and environmentally friendly management systems, improved models of business, modern management methods of employment etc.

Innovation is a multi disciplinary, cross functional activity. In banks the innovation process needs to touch all areas of the business including sales / marketing, operations, risk management, support services etc., Today it is argued that innovation is the only winning factor in business, shifting all others as qualifying factors. Successful innovation should be an inbuilt part of a bank's business strategy, where they create a culture of innovation and lead the way in innovative thinking and creative problem solving.

This article will attempt to discuss how banks seek to increase their innovative capacity and make decisions regarding one crucial innovation related area identified by the writer as 'Innovation Leadership'. In order to do so, the relevant literature was reviewed and the author's views were also elaborated on who is responsible to perform the job in Sri Lankan banking fraternity perspective: a Chief Executive Officer or Chief Innovation Officer? While banks are looking for innovation, at the same time, political leaders in Sri Lanka have been figuring out ways to foster innovation. As a result, the present Government is also relaxing its policies and has agreed to form "sammuthivadaya" to manage the country for the next two years. Despite many criticism and pros and cons, signalling to a commitment to innovation is a critical first step in the state innovation process. Needless to say, banking sector too is undergoing swift and unprecedented change.



## The innovation imperative – do we really have to?

Ongoing shifts in customer behaviour and advances in technology are changing not only what customers expect of banks, but also how banks and non-bank competitors deliver financial services. These conditions bring several implications in relation to innovation.

- Heightened use of customer insight for the delivery of services and an enhanced customer experience
- Artificial intelligence for customer service in the next horizon
- Customers' behaviour varies widely but as customers become more connected and better informed, there is a trend towards consumers expecting greater control and interaction with the products and services they purchase.
- Technology innovation is driving new capabilities and new ways of delivering services. These innovations range from how data is managed and used, to how companies and customers communicate, to the applications, platforms and infrastructures on which businesses operate.
- Digital ecosystems are emerging, reflecting how technology has provided banks and customers with new ways of communicating and interacting.
- Mobile commerce creates not only a new channel for distribution and payments, but also opportunities for new modes of product and service provision that can incorporate elements such as location – specific services. Mass acceptance of mobile payments.
- Increasing digital and social selling
- Enhanced customer incentivisation
- Greatest competitive advantage that established banks have is the use of digital touch points to enhance interaction between customers and employees
- Expedite deployment of Omni channel, in particular the use of tablets in branches and video chat on mobile devices

In response to this dynamic environment, banks themselves are embarking on a new wave of innovation, exploiting technology and new business practices to transform their operations and performance.

However, for banks, the move to dynamic innovation is more difficult for many reasons which include a diverse customer base, a complex mix of products and services, a focusing on minimising risks and a traditional static control culture. Literature and practice on innovation over the last decade reveal that it is in fact, possible for an organisation to be more systematic about innovation.

For successful transition towards a more innovative focus, banks must implement talent management and organisational process to attract, develop and empower innovative leaders.



## **Innovation leadership**

Innovation leadership is defined in Wikipedia as philosophy and technique that combines different leadership styles to influence employees to produce creative ideas, products, and services. The key role in the practice of innovation leadership is the innovation leader.

As an approach to organisation development, innovation leadership can support achievement of the mission or the vision of an organisation. With new technologies and processes, it is necessary for organisations to think innovatively to ensure continued success and stay competitive by adapting to new changes, “The need for innovation in organisations has resulted in a new focus on the role of leaders in shaping the nature and the success of creative efforts.” Without innovation leadership, organisations are likely to struggle. This new call for innovation represents the shift from the 20th century traditional view of organisational practice, which discourages employee innovative behaviours, to the 21st century view of valuing innovative thinking as a “potentially” powerful influence on organisational performance.

Innovative leadership is the highest form of leadership because of the huge contribution made in the lives of employees, customers and community. Innovative leaders take their companies to far off, exciting destinations. An innovative leader, though, is an exceptional and rare one, a person who promotes and focuses maximum effective creativity from followers to achieve a remarkable breakthrough in the organisation. If you are going to get your organisation to make radical changes that will slingshot it warp speed ahead of your competitors, it will be due to dedicated, passionate, and visionary leaders who think and act boldly. That is the essence of innovative leadership.

## **Innovative organisational culture/climate**

Some studies have shown evidence of organisational culture as the mediator of the relationship between transformational leadership and organisational innovation and performance. In other words, for transformational leadership to affect organisational innovation, an organisation must have a strong innovative culture in addition to a leader with a transformational leadership style.

Culture determines the ‘feels’ of the organisation. The stereotypic image of many banks observes a formal setting with rigid work rules. A primary responsibility of leaders is to create an organisation culture that is conducive to efficient work and results in satisfaction of all stakeholders. It is common knowledge that many state banks in Sri Lanka face criticism due to their poor work culture. These banks are generally run through command and control rather than sensitivity to the employee welfare, they encourage instructions rather than interaction, threat of punishment rather than reward for performance, rigid approach and attitude instead of flexibility and creativity causing apathy of employees to the organisation’s goals.



## Innovation leader

Innovation requires visible and vocal top management commitment, supported by aligned resources and incentives. Once leaders give their signal of support for innovation, they open a call for innovation to all. At the same time, leaders must find some people with core competencies in innovation to lead specific efforts to integrate innovative pursuits. An organisation that wants systematic commitment to innovation will want to recruit, train, nurture and reward innovative behaviour of staff and leaders.

Not all innovation is completely new; in fact, innovation most often is a tweak on an existing idea or the unexpected juxtaposition of existing ideas. As such, innovation can come from anyone and anywhere. This is leading to more extensive organisational practices to discover internal innovation as well as to open up to external ideas and processes. Often referred to as the “democratisation” of innovation, this practice recognises and encourages a wide range of people to participate in the generation of new ideas, the translation and adaptation of existing ideas to new circumstances, and the combination of multiple existing ideas into a new concept. Empowering people is essential. If it is a good idea that can be prototyped, implemented, refined and disseminated, the source is of little importance.

## Innovation leader capabilities

Successful innovation leaders are found to,

- Take ownership to drive through the organisation with passion and dedication for the product and brand.
- Have the ability to alternate between the creative mind and the technical/ operational/ business mind at different stages of the process
- Be consumer-focused
- Possess curiosity, intuition and be flexible and problem – solving
- Provide technical competency and functional expertise
- Effectively manage the creative process, collaborate, simplify, and inspire.

Essentially, the innovation leader must think and act as both inspired, creative genius and the strategic general manager. They must alternate among: 1) facilitating broad, creative thinking about what is possible, 2) bringing disparate ideas and consumer insights together into revolutionary products/service ideas, 3) analysing the business risk, financial return, and operational implications of taking the product to the market 4) motivating a cross-functional team to collaborate, and 5) building support throughout the organisation. Clearly, this role requires a resiliency to accept ambiguity and to toy with, reframe, and abandon ideas.

Successful innovation leaders employ a common set of best practices that allow them to navigate between generating creative, consumer-focused insights and making hard, analytical decisions about feasibility and strategic fit. The best innovation leaders know how to work with



the cross-functional teams to allow the process to happen as broadly as possible, pulling ideas from outside, protecting the “wild idea”, and creating a safe environment to make mistakes and have crazy ideas. These leaders also know how to work with the innovation experts and other facilitators to spark creativity while being intensely aware of how to get things done inside the organisation.

## Driving transformational change

We recommend an approach that combines the latest thinking in innovation leadership with customisation to the strategic context to drive change. This approach incorporates the following steps:

1. Strategic review: Base all initiatives in the strategic direction and goals of the organisation taking into consideration the competitive market environment and the business operations.
2. Talent and performance management review: Understand the existing processes for performance management, talent development, and competency models.
3. Innovation leader profile: Create a customised innovation leader profile integrating the strategic context with the innovation leadership capabilities.
4. Innovation leadership assessment: Assess the current pool of leaders in the innovation leadership dimensions of creativity and innovation Leadership. Identify the capability and quantify the developmental requirements to meet strategic goals.
5. Creative climate and culture assessment: Assess the current climate and culture for creativity
6. Develop the innovation talent management strategy: Develop an Integrated talent management strategy for innovations. The strategy should consider the development of existing innovation leaders and key cross-functional team members as well as anticipating the future capacity required to meet strategic goals. Elements of the plan include group and individual development plans and a talent identification process including recruiting screens.
7. Develop the innovation scorecard: Finally, create a scorecard that links strategic goals to innovation goals and to units and individual goals. The innovation scorecard balances current, past and future innovations along with the organisation's current performance review process.

The top management needs to create a climate for innovation within the business. Innovation systems, tools and thinking are essential for organisational health and future viability.



## **Role/ need of a chief innovation officer (CINO)**

Bank Chief Operating Officers, Chief Executive Officers and other O's know fully well they need to innovate and think of new business models and find the next best thing for the customers to love them. These demands for innovation happen all the time in today's ultra-high pressure business climate. Most of the time, however, the short term urgencies create pressure that creates an environment that suppresses innovation. It is far easier to do what is needed to normally meet our performance metrics than to take the perceived risks of finding an innovative way to exceed them.

Under such circumstances, it is high time for a bank to consider having a CINO who is a person in a bank who is primarily responsible for managing the process of innovation that identifies strategies, business opportunities and new technologies and develops new capabilities and architectures with partners, new business models and new industry structures to serve those opportunities. The CINO's key role is to constantly "bang the drum" for innovation being responsible for identifying and proposing areas where technology, bank structure and day to day practices can be combined and refined to drive a business towards its corporate goals. CINO actually works to ensure that all levels of the bank are embracing key behaviours that foster creativity. CINO should give a bank sustained competitive advantage.

If you look at profile of a CINO he/she needs to be very enthusiastic about new ideas and be able to convey this enthusiasm to all others in the bank. He needs to be influential in terms of getting bank support, and have high personal credibility so that the bank is patient enough for results to emerge in what is inevitably a slow process. But no CINO can be successful unless some other support structures are in place.

## **Whose job is innovation?**

### **CEO's or CINO's ?**

CEO's role is setting a strategic vision and creating organisational structure and processes that unleash creativity and risk taking. Usually a CEO, as a business thinker takes decisions based on formulas, logical facts and is quick to make decisions. Innovation has grown to be so strategically important to most banks that the lead role on innovation has been taken over by the CEO.

Sometimes, the CINO can't successfully be the point person on innovation, because they may lack the political clout to make the kinds of changes that are needed to transform the bank's future direction. In most banks, only the CEO has that kind of mojo (influence / magic power).

Traditionally, CEO's are responsible for business direction and strategy; someone is needed to manage the transformational strategic innovation that straddles the entire business.



Yet the question remains - If innovation is part of everyone's job then how can a single person be responsible for innovation?

Business innovation is a collaborative affair that runs from idea, through development to implementation. This process normally involves many people with various expertises. So the notion of a lone innovator simply does not exist.

Usually, when people speak of innovators, what they really mean is "creative thinkers" in other words, people who are able to generate creative ideas that become the basis of innovations. Sometimes, however, what people mean by "innovator" is what we will call "innovative leaders, people like Steve Jobs (CEO of Apple) and Thomas Alva Edison (who commercialised electric lighting and many related inventions). Innovative leaders are creative visionaries who have big ideas and, most importantly, can motivate people around them to turn those ideas into reality. Imagine a CEO like Mr. Steve Jobs, then the role of CINO looks superfluous.

The present CINO role more is pivotal around technology, however, in the future the new crop of CINO are most likely to be the CEOs in waiting, able to apply their multiple skills and broad knowledge to business situations that arise. The CINO must be strategically aware and able to operate tactically in the short term, but be equally comfortable in long term strategic planning.

## Conclusion

The focus on innovation has always been a fundamental part of the culture. Due to greater competition, tightened budgets and new technology the importance assigned to innovation as a legitimate and vital business process has been elevated in recent past. In today's context, however, Innovation is slow to evolve.

There is a tremendous thirst for innovation in banking. There is a great deal of room for improvement in Bank's business model innovation in Sri Lanka which can be based on deep customer insight, process and leadership related areas. However, many banks will continue to make meaningful changes that challenge, continuing to hope for more safe cost belt without carving lucrative pieces of customer value.

Innovation is actually easy when the corporate culture is supportive of same. Unfortunately today many banks harbour "excellent" practices that crush the innovation's spirit. This is mainly because of the fear of high profile O'S being replaced by youth talent or otherwise the innovator is punished quite severely in the workplace by the Superior.

Banks are with so focussed on regulation and risk management that they, pay less attention to innovation, although in today's fast moving complex banking environment, the ability to innovate and deploy faster and more profitably than competitors is increasingly becoming a requisite for growth and success. Thus, banks must identify their deficiencies as all these represent opportunities for innovation.



Roles have always evolved over time, especially in the workplace, and rapid technological changes in recent years have hastened the acceleration of changing job roles in all types of sectors.

Business thinkers take decisions based on formulas, research and logical facts, and find it difficult to manage ambiguity, whereas innovative thinkers not reliant on past experience or known facts find ambiguity to be an advantage for them. Hence innovation is becoming a crucial addition to business thinkers. If you are a leader, innovative thinking paves the way to bring more innovation into your bank.

Despite the current uncertainty and unforgiving market sentiment, banks must find a path back to a position where investment in innovation and top line growth are once more acceptable, since in spite of the word 'innovation' continuing to be in corporate corridors; many banks in Sri Lanka are far from making innovation a part of their DNA.