THE INNOVATION PILL: PLACEBO, PANACEA OR PARADIGM?

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To be competitive in this changing world, it is necessary to put an emphasis on coming up with new ideas, products, and services that add value. This solution is simply termed as "innovation" by many executives and has become the buzzword not only in the business world but also in all areas including education and politics. The overuse and generalisation of the term "innovation" has led to a loss of understanding of what is really expected of it and what it can deliver to organisations. The word has been overused to the point that most of the discussions have become circular; "in order to innovate we need to be innovative and for us to be innovative, we have to encourage innovation". The so called 'innovation cultures' of many organisations function as a mere 'placebo' where there is no actual reinforcement to the cause but provides only a psychological push to the employees who anyway have the DNA to think out of the box. On the other hand many executives see innovation as a 'panacea' for all the challenges and inefficiencies encountered by organisations without exploring the contextual reality and the underlying circumstances. Therefore, it is important to know the ingredients, the right dose, uses, misuses and side effects of the 'innovation pill' prior to using the same.

This article attempts to explore the concept, expose some myths about the concept and provide some insights relevant to the banking industry, especially in the Sri Lankan context. Accordingly, this article is divided into four areas; Innovation: Concept and Components, Demystifying the Myths, The Innovation Paradigm and Innovation in the Banking Sector

Innovation: concept and components

The term innovation is often poorly understood and can be sometimes confused with related terms such as invention and creativity. Most people can provide examples of innovative products such as the iPod or the PC, but few can clearly define the innovative aspects of these products. One definition of innovation taken from the oxforddictionaries.com is 'Make changes in something established, especially by introducing new methods, ideas, or products'. In the case of corporate world innovation is a process that transforms ideas into outputs, which increase customer value. 'Invention' is another term often used in the context of innovation. Invention has its own separate entry in the dictionary and is defined as 'Create or design something new that has not existed before'. Invention need not fulfil any customer need and need not include the exploitation of the concept in the marketplace. Innovation differs from invention in that it is more than the creation of something novel; it also includes the exploitation for benefit by adding value to customers. Invention is often measured as the ability to patent an idea. If this can be achieved, then it is an invention. Inventions do not necessarily lead to innovation unless they are brought to the marketplace. If an invention can be exploited and transformed into change that adds value to a customer, then it becomes an innovation. On the other hand, there are many innovations that do not require invention in terms of originality. Process and service innovations often involve applying well established techniques and technology. Another term usually interchanged with innovation is 'creativity' which is 'a mental process that results in the production of novel ideas and concepts'. Although creativity is a fundamental part of innovation, it is wrong to interchange the terms as innovation requires further processing of the output of the creative process (the idea) so as to allow the exploitation of its potential value through development.

The literature on innovation in an organisational context has a long history. At the initial stages innovation used to address the organisation's ability to respond and adapt to external and/or internal changes. Later the concept has evolved to have branches of innovation where the focus was primarily on the organisation's ability to promote process and product innovation. However, it was evident that organisations can no longer remain successful by merely adapting to external change and/or innovating in terms of products/services. Accordingly, a third type of innovation has been introduced as strategy innovation or business concept innovation.

As the concept gained wide acceptance in organisations it was further developed to distinguish between, incremental innovation and radical innovation. Incremental innovation is not about huge sweeping changes. Firms that innovate incrementally tend to do so just a little bit at a time such as incremental innovation in cost cutting or feature improvements in existing products or services (Leifer, 2000). This distinction primarily focused on the extent of newness. An innovation can be new within a particular context or new in terms of the overall marketplace of ideas. Christensen (1997) advanced the concept of innovation by separating the attributes of newness and impact. Because radically new innovations do not always have a significant impact, he differentiates between sustaining versus discontinuous innovations. Sustaining innovations improve the performance of established products or services. Discontinuous innovations bring to market very different products or services that typically undermine established products and services in the particular market sector. Discontinuous innovation does not always have greater utility; it may, in fact, result in a product that under-performs established products. The reason for this is that the momentum of on-going sustaining innovations can push product and service functionality beyond what many customers may actually require. Another concept added to the list was disruptive innovation (Govindarajan and Kopalle, 2006; Christensen, 1997) which introduces a different set of features, performance, and price attributes relative to existing products, making it an unattractive combination for mainstream customers at the time of product introduction because of inferior performance on the attributes these customers value and/or a high price, although a different customer segment may value the new attributes. Subsequent developments over time, however, raise the new product's attributes to a level sufficient to satisfy mainstream customers, thus attracting more of the mainstream market (Govindarajan and Kopalle, 2006).

It must be noted, however, that the innovation types are analysed differently in the literature and what is more important is how these concepts are used by the organisations in order to make better innovation decisions specially in terms of strategising and resource allocation.

Demystifying the myths

Everyone undisputedly agrees that innovation is the key to the future and hence "Innovation" is the obvious response of executives, politicians, and educators to the question, "What do we need to be successful?". If it is so straightforward, why doesn't it work for all the organisations that invest in innovation? In many cases innovation has become just a buzzword and its overuse and generalization has caused more instances of eye rolling than actual innovation. Therefore it's worth looking at some of the myths and misapplications of this concept in order to understand how it can be used effectively to derive the desired benefits.

'Innovation cures all illnesses'

Many executives today, tend to quote 'innovation' as the answer to almost all the issues connected with the products, processes and markets. Innovation is undoubtedly an effective tool that will help the organisations to achieve excellence and add value to their customers, but it is certainly not a 'panacea' that can solve all the problems in organisations. Too frequently, companies decide what they're going to do before determining why they're going to do it. That's challenging, because developing innovations that have a lasting impact requires going beyond doing one single thing. Improving innovation is a higher level issue, requiring a coherent and consistent set of organisational interventions. Few questions to answer before deciding on whether to go ahead in the innovation path is: 'What problems does innovation need to solve?' 'Is innovation the only way out?' 'Have we got our problem right? '

If the core business is in crisis or is struggling with basic operational issues, leaders need to focus on fixing those problems first. It is important to first ensure that the organisation has reached a level where the existing organs are functioning at healthy levels and if this level isn't sufficient to face the competition or to meet the stakeholder expectations, the organisation can then look at innovation as a means to go to the next level or to face the competition better. Innovation also isn't a quick fix for a struggling business as the full benefits of the investment in innovation generally become fully apparent years later. Finally, innovation is not a one-size-fits-all proposition. Leaders need to make the strategic choice: whether to isolate new growth efforts, infuse everyday innovation into daily routines or truly institutionalise innovation.

Product innovation: pain killer or immunity

In order to face the competition in the market place, most organisations naturally jump to the conclusion that product/service innovation is the key to face the rivalry and improve the market share. This could be incremental or radical where incremental product/service innovation is focused on improving the features and functionality of existing products and services while radical product/service innovation is focused on creating wholly new products or services. However, as the competition becomes intense, the peers tend to adapt and respond faster. As a result, the product life cycles are becoming shorter and shorter and the organisations are compelled to speed up the innovation process to develop and bring new products/services to the market faster than the competition. The organisations that are slow in the innovation process become losers and fail to derive benefits from their investment in the product/service innovation process. Therefore, it may act like a ‘pain killer’ to provide a temporary relief while the problem may continue to persist and it requires the dosage to be repeated and to increase the dosage in the long run as the effectiveness will get diminished over time.

Therefore, it is important to look at options to improve the immunity system by improving the internal processes and practices. In this sense, paying attention towards process innovation in addition to product/process innovation is imperative as they are often interconnected. Process innovation is important not only as an enabler of product/service innovation, but also to address quality and continuous improvement movements, change management, organisational learning and knowledge management aspects. While incremental process improvements are useful and relatively easier to implement, Hammer and Champy (1994) introduced the concept of ‘radical reengineering’ for companies to achieve maximum efficiency and effectiveness as opposed to the incremental process improvement. It is necessary to look at radical reengineering, given the pace at which technological advancements are taking place, as incremental improvements to the existing processes may not allow the organisations to leverage the full potential of the technological advancements.

However, radical reengineering should take place with sufficient attention to few areas as it can otherwise lead to a deadlock and become detrimental to the organisation. First and foremost the management itself should be radically reengineered as often the management has been a barrier to successful reengineering of an organisation. Secondly, it is important to have a sufficiently detailed and realistic transition management plan. Thirdly, a sustained effort is required till the completion of the transition process to achieve success.

Innovator’s dilemma

It is believed that organisations that foster innovation tend to grow outperforming the competition. In this context, scholars claim that companies need to focus on developing innovation as a core competency. However, there are some indications that even those companies that are good at innovation may experience problems in the long run. Christensen (1997) notes that great companies that have sustained innovation over a long period of time can, and do, fail. He refers to this as the ‘innovator’s dilemma’, which is the title of his insightful book. According to him, well-managed companies often fail because the very management practices that have allowed them to become industry leaders also make it extremely difficult for them to develop the disruptive technologies that ultimately steal away their markets. Focusing on the most promising market and listening to its customers can blind a company to discontinuous innovations that, though they may not have a promising market in the near term and may not currently perform as well as the existing, highly perfected products may nevertheless transform the market in a way that progressively displaces the incumbents. A key feature of this displacement process is that the emerging or transforming market is incompatible with the incumbent’s business requirements (size of project, price, profit levels, facility characteristics and staff skills).

Given below are some examples of well-performing, innovative companies that have failed as a result of a discontinuous innovation that changed their industry.

- Sears Roebuck pioneered several important innovations in the retail arena in the 1960s (supply chain management, store brands, catalogue retaining, and credit card sales) but then completely ignored the advent of discount retailing, home centres, and financial innovations. Sears' credibility as a merchandising and financial innovator was shaken and it lost its standing as a competitive enterprise.
- IBM missed the advent of the mini computer, and later Digital Equipment Corporation missed the advent of the desktop computer.
- Xerox was set back with the advent of tabletop photocopiers.
- Leading mechanical cable-actuated manufacturers missed the transition to hydraulic excavation technology.
- Nokia missed the advent of an advanced user friendly software application although it came up with its first smart phone back in 1996 and built a prototype of touch-screen, internet-enabled phone at the end of nineties.
- In the Sri Lankan context the first cellular network Celltel failed to adapt technological advancement faster than the peers.

One of the remedies to address this dilemma is to focus on both discontinuous and sustaining innovation without being purely dependent on discontinuous innovation. An established company can attempt to identify and develop discontinuous innovations, especially through an identified sub unit or a subsidiary of the larger organisation so that the larger firm is not exposed to the inherent vulnerabilities. However, this strategy will not ensure that the company will be successful in identifying the next major innovation to affect that industrial sector. In the case of Nokia, they failed to recognise the increasing importance of software and underestimated the speed of transition to smart phones and relied upon the hardware engineering capabilities and the brand name. Therefore, it is vital to have a business model appropriate for the emerging market and external environment which can actively scan potentially relevant developments in order to make sure it responds to and adapts to potentially threatening new technologies in a timely manner.

However, the story doesn't end there as there is growing evidence that companies that were the exemplars of innovation are facing hard times not necessarily due to the emergence of a new discontinuous or disruptive innovation that threatened their competitive edge. Rather, innovation is both expensive and risky, and the downturns in the economy and intensity of the rivalry have made stakeholders wary of the ability of these companies to continue to aggressively pursue these innovative business strategies.

Therefore, it is necessary to carefully evaluate the long term direction of the organisation and how the organisation wants to align the innovation piece in the map. It's about at what level and in what scale the innovation is embedded in the organisation's architecture and strategy. The executives should not take decisions based on a pre-conclusion that innovation always delivers and just get there to play accordingly, because once a company enters into the innovation 'expressway', it is not possible to slow down or stop.

Technology: hygiene or advantage

In 2003 an article was published in Harvard Business Review by Nick Carr with the title "IT Doesn't Matter" and ignited an industry firestorm for its perceived dismissal of the strategic value of IT. He argues, as information technology's power and ubiquity have grown, its strategic importance has diminished. "You only gain an edge over rivals by having or doing something that they can't have or do. By now, the core functions of IT – data storage, data processing, and data transport – have become available and affordable to all. Their very power and presence have begun to transform them from potentially strategic resources into commodity factors of production. They are becoming costs of doing business that must be paid by all but provide distinction to none". Although, there are views against this argument, it is important to critically look at the role of IT in the innovation process. Most executives believe automation and IT driven process enhancements as innovation and thus believe they have gained a competitive advantage over rivals. This is not completely true, although there could be an element of innovation in it. IT has become almost a commodity and a hygiene factor in today's environment. If an organisation invests in IT to enhance the processes, improve the reach to the customers, introduce a corporate website etc, that doesn't really bring any value addition to the customers over and above the competitors, although these initiatives may push the revenue up due to speed of service and wider market reach. In this case what the organisations have done is switching the delivery channel in par with the prevailing technological advancements. Innovation only happens when you use technology to provide a real or perceived value to your customer.

As far as innovation is concerned technology is an 'enabler' and the extent to which an organisation leverages technology in creating novel value propositions determines if the investment in technology is a 'hygiene' factor or an 'advantage' for the organisation that will push the organisation above the rivals. In today's context the users are in a position to dictate what they need and IT is capable of customising its shape the way user demands. Apart from this flexibility, improved IT literacy of the users (both employees and customers) and increased availability of the technology allow users to dictate what they want rather than aligning their strategies to cope with the limitations in the technology.

Another aspect to look at when an organisation decides to take advantage of the technology as an enabler for innovation is the changing lifestyles and the extent to which the customers adapt to the technological advancements. It is not economically beneficial to invest heavily in technology and over deliver to the market, unless the market is ready to embrace the innovation. This is the case with the financial sector today where the customers' willingness to adopt e-banking and amount of paperless transactions remain low. This is partially due to the generation gap as well. On the other hand, the organisations need to be flexible enough to adjust their policies, procedures and structures to support the technology driven innovation. It is a fact that most of the organisations have excluded social media in their scope and access to those sites are restricted as a policy. It is important to re-visit these policies in order to derive the full potential of the technological advancement given the exponential growth in the use of social media and its potential.

American Express established partnerships with Twitter and Foursquare few years ago. One of the company's social media innovations was a tweet embedded with a live video stream of a Basement Jaxx gig, held at Somerset. Not only could Twitter users watch the gig online, they were able to tweet using #BasementJaxxLive and up to 10 requests would be read out by the music duo themselves, meaning fans unable to attend the gig were still able to get involved. This initiative was not directly linked to financial services but the tweet demonstrates AmEx's commitment to delivering an exceptional customer experience.

Innovation premium

It is a fact that innovating organisations gain an immense advantage over their competitors. However, a general consensus in any attempt or a project is to demonstrate incremental benefits over the costs incurred on the same and hence visible and measurable results are expected. Although, innovation is likely to cause various organisational impacts, it may not necessarily bring about clearly measurable performance results, because it is extremely difficult to estimate the overall pay-off for being innovative. Does that mean investing in innovation is a worthless exercise? The answer is 'no'. Although, it's not possible to quantify the direct impact of innovation, there is empirical evidence to prove that organisations do get a competitive advantage via fostering innovation.

In 'The Innovation Premium: Capturing the Value of Creativity' (1999), Jonash and Sommerlatte, mention that" Wall Street increasingly places a higher value on innovation than on virtually any other approach to generating growth... More than leadership change, more than mergers or acquisitions, more than renewed commitment to cost reduction, investors reward innovation. We call this effect the innovation premium. "

Their survey of Wall Street found that 95% of the respondents report that the more innovative companies enjoy a share-price premium over their less innovative counterparts; over 90% think that the importance of innovation has increased significantly over the last decade; over 70% report that innovation is a key driver of the market's valuation of companies.

Further, using Fortune magazine's rankings of companies by innovation over the last 15 years, they found that innovation rankings correlated with shareholder return. Companies in the top 20% of Fortune's ratings enjoyed double the shareholder returns of the other companies in their industries. In addition, 84% of senior management respondents in their 700-company worldwide study reported that innovation was now a significant strategic issue for their businesses. Accordingly, innovation has the ability to boost a company's earnings, speed growth, ensure an advantage over competitors, and appeal to shareholders. This means, businesses that deliver earnings growth based on a continuous stream of new products and services and new ways of doing business capture the innovation premium. Innovation builds customer satisfaction and brand loyalty, helps keep employees satisfied, increases partner satisfaction and preference, and wins more share of market and of mind. All these benefits, in turn, translate into consistently strong financial performance, improved investor returns, and glowing financial health.

There are various organisations engaged in assessing the innovation premiums of companies and rank them in order to provide signals to the stakeholders. For instance, Forbes publishes a list of most innovative companies and captures the difference between the market capitalisation and a net present value of cash flows from existing businesses as the innovation premium. However, they include only industries that are known to invest in innovation, excluding industries that have no measurable investments in R&D. Accordingly, Tesla Motors - USA tops the list of The World's Most Innovative Companies for 2015 with an innovation premium of 84.82%.

Another organisation that publishes the most innovative companies based on a different set of parameters is Fast Company. They have ranked Warby Parker as number one in their The World's 50 Most Innovative Companies list for 2015, while Apple ranked number 2.

Therefore, it is important for organisations to understand that innovation needs to take place not only when the organisation is able to precisely measure the results via a traditional accounting statement, rather the decision should be driven with a strategic and long term perspective. The overall pay-off may not necessarily be available at the product or service level, but at the organisation level in terms of 'perceived premium' from the stakeholders' point of view and eventually drive the overall performance of an organisation. It must also be noted that the organisations that generate innovation premium are the ones with continuous innovation. Innovation is fully embedded in their organisational culture to the extent it is visible to the stakeholders who perceive the organisation as being innovative and eventually the organisational growth is driven by innovation. As such, it is necessary that the management have a helicopter view on the desired results of an innovation agenda and inculcate innovation in the DNA of the organisation.

Competition or collaboration

It is believed that competition is the main driving force of innovation and therefore traditionally innovation is not discussed without competition. The strategists were always talking about how to derive competitive advantage over the rivals and thus the concept of innovation is embedded in the competitive strategy of an organisation. However, there is new thinking about market strategy such as 'blue-ocean strategy' which talks about creating uncontested market space and make competition irrelevant. As discussed above, technology has become an enabler rather than a competitive advantage and any innovation in the technological front is likely to provide the benefits to the industry as a whole, rather than for a single player, except for any patented invention by a player in a tech-driven industry, which again is a temporary phenomenon. Another emerging trend is where the innovation in one industry affects the market share of other industries. The innovations in the mobile phone industry have affected many industries such as computer, gaming, camera, radio, education, watches, TV and even the financial services sector. Therefore, the players of these affected sectors cannot simply wait on the basis that the competitors within industry are not innovative and thus less competitive.

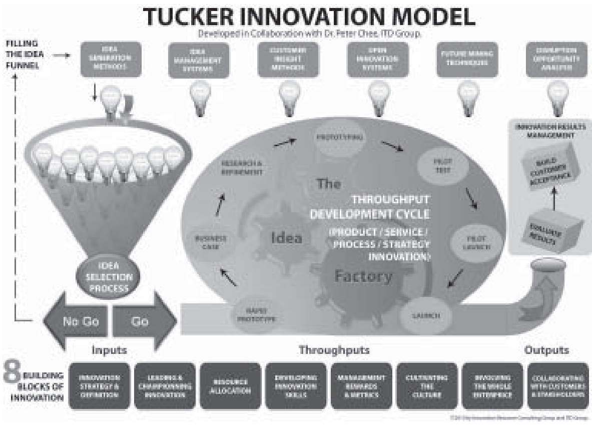
Because the threat is coming from outside and the impact is industry-wide, it is not practical for the players in the industry to face such a challenge individually. In a country like Sri Lanka, with an open economy, there is a greater threat to the domestic players from the global giants. In this backdrop can the players in the market in isolation afford the kind of R&D expenditure to explore new markets? Can the players in isolation tackle the threats coming from other fast growing industries? Do the organisations have the required talent and scale to foster the desired level of innovation to outperform the threats coming from other industries and global giants in the same industry? More importantly, is it possible to make things happen within a desirable time frame, before it is too late to respond?

The most appealing answer to all these questions would be 'collaboration' although it entails various challenges and inherent limitations. "You have to reach out to other companies – even your competitors – and form a collaboration so you can handle a major innovation," says Mike Beffel, executive director at CCAM. "If you try to do it all yourself, chances are you're never going to get there." Inter-organisational collaborations have now become a major topic in the innovation literature. In this context not only the players in an industry are expected to collaborate, but also the academia and experts in various disciplines are well advised to form a knowledge hub through which industry wide R&D activities are carried out. Although there are many industry wide associations and forums in existence, very little attention is paid to innovation by these forums. The primary focus of these forums in many instances is to instil collective bargaining power in addressing industry issues such as regulatory matters, government policy decisions, managing scarce resources and exploring new markets to expand the boundaries of the industry. There are many success stories in the global context where collaboration has paid off. One of the Sri Lankan examples on collaboration is the project 'Vega' where a group of diverse experts in Sri Lanka got together to produce the first ever all electric super car which has come to the final stages by now. The project would have been just a dream if not for the collaborative model deployed by the team.

The innovation paradigm

As stated at the beginning of this article, innovation has become a buzzword in the corporate world and everyone is trying to instil innovation in their strategy and probably appoint a person or a team to look into the new ideas, establish a process for mining customer insights, design an awards program for successful innovations etc. However, many surveys have indicated that the organisations who believed they have instilled innovation were dissatisfied with the innovation performance. The fundamental mistake that most of the organisations make when it comes to innovation is that they attempt to tackle innovation as just another tool or a process, assuming it will in isolation deliver results, but the reality is totally different. However much brainstorming was done and idea generation was effected, it won't transform into an advantage, if sufficient money is not allocated to prototype and test those ideas. Innovators should have a passion and the capacity to examine what others often leave unexamined, but not many companies have invested systemati¬cally in improving the innovation skills of their employees and capacity building. If the product development pro¬cess places too much emphasis on removing risk from new launches, only a few new products will make it to market. If the assessment and compensation system doesn't reward innovation performance, it will end up with managers who are more bean counters than innovators. Likewise, the list can go on. The issue in all these instances is that the organisations have not identified all the components that are necessary to successfully execute the innovation agenda.

Therefore, it's important to identify all the components that matter and integrate them into a smooth-running machine. Accordingly, innovation is a 'paradigm' where an organisation wide approach is desirable in which many interdependent components are working together to deliver a desired outcome. It takes a systematic approach to build a systemic capability and skills, tools, met¬rics, processes, platforms, incentives, roles, and values all have to come together to build the innovation machine, irrespective of the scale of innovation, be it product innovation, process innovation or business model/strategy innovation. Robert B. Tucker who is an author, consultant, and professional speaker specialising on the topics of innovation and growth has developed the Tucker Innovation Model which clearly explains the ingredients and their interconnections.



Therefore, if a company is serious about building an innovation engine, then it needs to upgrade everyone's innovation skills, agree on what counts as innovation, establish comprehen¬sive metrics, hold leaders accountable for innovation, and retool its management processes so they foster innovation everywhere, all the time. These can't be isolated initiatives; they must work in harmony.

Innovation in the banking sector
Global trends

Kevin Hanley, Director of Design Services at Royal Bank of Scotland says, "You don't need a bank to raise funds, to buy or sell currency, or to get a loan. Around 15% of payments currently are done through non-bank payment providers. The world's largest taxi company owns no vehicles (Uber) and its largest accommodations company owns no real estate (Airbnb), and the same disruption is happening in banking". It is also said that banks won't exist few years from now and their functionality will be taken over by IT companies. Although, these comments are alarming as far as the future of the banking sector is concerned, there is still some hope as long as the players are ready to adapt to the changing environment. In this context the famous quote of Charles Darwin; 'It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change' still remains valid. In the global context, competition is coming not, as in other sectors, from tiny start-ups, but from some of the biggest firms in the world, such as Google and Apple. These firms are dangerous competitors, as they have the capacity to offer banking services for free, using the information they harvest from the transactions for the rest of their businesses. As such the banks globally have started to prioritise their innovation agenda and re-visit their business models. There is an increasing trend in the global investment in financial-technology ventures and most of the global banks are withdrawing from certain markets as well as businesses with massive job cuts and concentrate on building and strengthening core competencies.

Sri Lankan banking sector

The Sri Lankan banking sector is concentrated on a limited number of key players while state banks account for a significant proportion of the sector. After the establishment of the peace in 2009 the entire country is now open for the players. Technological advancements have made close integration between the urban and rural population, but the primary challenge is to give consistent service to customers irrespective of the kind of customer whether rural or urban. Banks are focusing on retaining customers and increasing market share. Even with ATM machines and internet banking, many consumers still prefer the personal touch of their neighbourhood bank branch. Technology has made it possible to deliver services throughout the branch network. Ensuring that all bank products and services are available, at all times, and across the entire organisation is essential for the banks to generate revenues and remain competitive. Banks in Sri Lanka are now working towards a vision to have an enhanced retail delivery system, not only within the Western Province and urban areas, but also in the outskirts. Such a system would include transformed branches, enhanced telephone services, and leading-edge internet banking functions that provide a consistently positive multi-channel experience for the customer. There are three broader segments in the market : 1) a segment who still do not use a bank 2)another segment continues to bank with a physical branch and 3) the customers who are becoming familiar with ATMs, e-banking, and cashless economy. This shows the immense potential for market and as such banks are setting up alternative delivery channels like off-site ATMs, internet banking, telebanking, outsourcing, centralised transaction processing, etc.

Some of the challenges that the banks are facing today are: competition among the banks, competition from MNCs, managing diversified needs of customers, diminishing customer loyalty, coping with regulatory reforms, management of impaired assets, keeping pace with technological advancements and problem of non-performing assets (NPA). No doubt, the benefits of technology have brought dramatic changes in the outlook of modern banking. Now the goal of banking is not just to satisfy but to engage with customers and enrich their experience and for the successful achievement of this goal, the only sustainable competitive advantage in the Sri Lankan context is to give the customer an optimum blend of technology and traditional service. When technology occupies a pivotal role in delivery of banking services, the expectations of the consumer tend to grow. These expectations include services with minimal response time, efficient service delivery, tailor-made and value-added products to suit specific needs, hassle-free procedures, minimum transaction costs, and pleasant and personalised service.

Now the question is 'how feasible is it for the Sri Lankan banks to think of innovation when the shape of the sector is far below in many aspects when compared with the global trends, predominantly in the technological front?' It must be noted that the innovation is for future and hence any investment should be made after a careful analysis of the future trends and assessing if the banks can deliver their services to the customers better, faster and at a lower cost than the competitors. The innovation challenge is even tougher as the banks have inherited obsolete legacy systems and mindsets. In spite of this, some players have taken bold steps to invest in technology and bring down some flavour of modern banking into the country. The challenge still remains tough, in terms of competing with the MNCs and other industries like mobile phones. Some of the vital questions to ask in this backdrop are; Can the banks afford to invest in the type of R&D required to outperform the global players? Are the banks capable and the structures flexible enough to build the capacity, given that innovation is not just a tool, but rather a comprehensive model or a paradigm? Although, the answer to these questions could be probably 'no', it doesn't necessarily hold back the banks exploring avenues to win the market place. In this regard following points can be recommended for careful evaluation by the players.

Get IT right!

As discussed above, technology can play different roles in an organisation, but for banks in today's context, IT is the 'backbone'. Therefore, the initial task would be to get the basic IT infrastructure in place and gradually develop the same in order to ensure that it is in par with the ongoing developments in the market place and meets the customer expectations. It is also important to capture the level of IT adaptation by the customers and open up the channels for the customers to interact with the banks conveniently.

Secondly, it is necessary to gradually transform the technological infrastructure into an enabler of the organisational growth. It is not only about the extent to which the bank is equipped with technology, but also about how the customer perceives the same as far as his/her expected levels are concerned. One of the common feedbacks received in customer surveys globally, is that the customer believes that the bank doesn't understand his/her needs and doesn't adapt to the technological advancements fast. Therefore, it is equally important to use various channels to make the customers aware of the developments that took place in the bank and get the customers to proactively experience the services. Historically, automation was seen as a value addition, but in today's context the speed and convenience offered by the banks are generally below the expected levels of the customers. As such, investing in IT is a must and is more about getting the hygiene in place.

Innovate or imitate!

Innovation is a riskier and expensive deal. This is far more complex in the banking sector, given the inherent complexities in the transactions and the level of surrounding regulations. The question is, why should we re-invent the wheel? The players in the Sri Lankan banking sector have been penetrating the markets mostly by imitating the innovations in other parts of the world. It is never a bad approach and what is more important is what you achieve rather than how you achieve. There are many successful start-ups that are built on imitation, not innovation including Facebook and Apple. At the end of the day innovation is just a mean and the destination is growth. There are so many good things in the global context and probably among peers to benchmark. Therefore, it's always a good idea for the bank to look at the global and local players who have already innovated new products and methods and imitate with appropriate customisation.

Mobile phone penetration: threat or opportunity?

Mobile money is a rapidly maturing industry that is bringing financial inclusion to a growing number of previously unbanked and under banked populations across the developing world. Mobile money services are now available in over 60% of the world's developing markets as per GSMA Global Mobile Economy Report. According to the key social indicators given in the 2014 Annual Report of the Central Bank of Sri Lanka, there are more mobile phones in Sri Lanka than people (120 for every 100 persons). It is inevitable that the banking sector is likely to get affected in their market share as new financial products are being developed by the mobile phone operators. In this backdrop, probably the wisest course for banks would be to identify the strengths of the mobile banking platforms and build complementing capabilities. Mobile banking provides unbanked customers with choice, security, convenience and affordability that are often missing in cash-based operations. Also, this helps the banks to switch from high cost channels to low cost channels. Therefore, banks should look at ways and means to introduce new products and services via mobile and look at the modalities of possible alliances with mobile operators. There are instances in the global context where banks have even bought over the mobile companies. The Commonwealth Bank of Australia has acquired 100% of South African digital banking company Tyme, which is best known for its installation of MTN's Mobile Money solution. In the Sri Lankan context, there may be opportunities to penetrate the rural sector and improve financial inclusion via mobile banking solutions as opposed to high cost branch network expansion. There is a development that mobile-based micro lending is poised to become one of the primary growth drivers in the banking sector in Sri Lanka.

Reaping the merits of collaboration

It is beyond the capacity of a single player in the banking sector to invest in the type of R&D required to generate revolutionary innovative products or services that can outperform those of MNCs. Further, capacity building in the subject is a major challenge given the level of complexities involved and the lack of dedicated expertise to work on full time basis on continuing projects. Therefore, it is advisable to look at collaborative models within the industry as well as among various expert groups to build a common R&D venture where extensive market research and product/process prototypes are generated and then on a collective basis to launch them to the market. Can the banks collaborate to set up fin-tech ventures, where each player can contribute to the capital of the venture and share the benefits of successful innovations on an agreed basis? A pre-determined risk capital allocation from each player on this would not dilute the risk profiles or the asset quality of the banks, given that the investment is not significant.

In addition to the innovation agenda, the banks can collaborate to create and expand the market for existing products such as increasing the financial intelligence and technological capabilities of the rural sector through which the non banking and non-tech customer base can be shifted to the tech-savvy segment and thereby increase the technology driven banking products and services.

Another area where collaboration can help within the industry would be to expand the infrastructure. Historically, each bank wanted to have its own ATM and as a result, there were multiple ATMs in a given location installed by several banks and this resulted in duplicated investments. Later most of the banks have now joined the common ATM switch which has paved the path to achieve economies of scale at the macro level while enabling the sector to expand the ATM network. It would be economically and socially beneficial to have 100 ATMs in 100 locations collectively, rather than having 10 ATMs each at 10 locations by 10 players. On this basis, it is advisable for the sector to collaborate in further infrastructure development projects as it won't give any sustainable competitive advantage by investing in isolation.

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