DARE TO INNOVATE

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Preamble

The word "innovation' stems from the Latin word "innovare" which means "renew". The moment one hears the word innovation, one is inclined to think about new technology. This article, whilst agreeing that technology fuels and propels innovation to a great extent, not only accentuates a wider spectrum of other arenas for radical innovation but also stresses the exigency to innovate in order to gain competitive advantage. Some of the glaring challenges and arguments for innovations in the banking sector in Sri Lanka have also been discussed in this article.

It also sheds light on how bankers can learn to innovate the banking industry, by benchmarking against the other industries and multinational corporations across the world.

Introduction

"Innovators survive, followers die"-Steve Jobs

Innovation can be defined as a new idea, new system or a new process which provides a better solution or an improved position to meet ever evolving inarticulated needs in the market. In economic terms, an innovation can be described as a process that facilitates several novel ideas to create an impact in the society.

Steve Jobs stated that if the world is a vehicle and moves forward on 4 wheels, the front wheels are innovations and the rear wheels are value additions. Banking is no exception.

Sources of innovation

Innovation which is multi-faceted stems from several sources. Bankers can acquire knowledge from these sources of innovation with a broader mind set to apprehend as to how these abstract thoughts can lead to innovations in the banking industry. It has long been presumed that product innovations are invented by the manufacturers. "Automation', for instance, for the production line was introduced by Sir Henry Ford. Process innovation is more suited and congruent with the service sector organisations such as banking, insurance and the healthcare sectors. In process innovations, companies strive to improve the processes through simplification as the first stage or re-designing as the second or process re-engineering as the final stage with radical changes. Banks can explore such innovations to improve their processes through these stages. Cheque clearing process, remittance process, credit evaluation process are some of the examples in this regard.

Carrying out Research & Development (R&D) is another source of innovation. Based on the outcome of R&D, the company can gain either a greater degree of competitive advantage or even the distinctive competences over other competitors in the industry. For instance, LG introduced the "door cooling" system as a result of their extensive R&D where the company gained distinctive competences over Whirlpool, Akai, Panasonic and even Samsung for their patent rights for this discovery in the global market. Further "innovation on innovation" is another source for innovation. For instance, Japanese mastered the automation introduced by Sir Henry Ford and added further innovations to same by introducing Robots, Kaizen, etc. for enhanced performance. This is known as "acquired advantage" where the follower performs better than the inventor. Hence the local banks can study the recent innovations in the global market in the banking arena and introduce innovations better than the inventors.

Reverse Engineering can be considered as another source of innovation. Under this, one can dismantle the original product, study the architecture of same and produce a better product. Real life example of reverse engineering is that prior to the 1967 Middle-East war, Israel bought an armoured car from Russia with a firing range of 5 km (at that time), dismantled the entire weapon part by part and produced an advanced armoured car with a longer firing capability. Banks can study the exiting, yet advanced systems in Swiss and British banks and adopt such systems with localisation.

Gaining new knowledge can undoubtedly be a source of innovation where advancements in science, information technology, and production will naturally and constantly aid innovation. Generating "wind energy' was a mystery a decade ago. But today, it is a reality. Hence bankers should constantly strive to gain knowledge as this knowledge will pave the way to innovate. Finally "advanced thinking" is another source for innovation. Akio Morita of SONY produced the "Walkman" due to his constant thinking of "how to play golf while listening to music" (which were his two hobbies). This, not only revamped SONY and completely revolutionised the global music industry for future generations, but also became a stepping stone for most of the other innovations such as iPods. Having employees with higher IQ (Intelligent Quotient) and MI (Multiple Intelligence) will be an advantage to the banking sector if the top management aspires to be innovative.

Why innovate?

In Sri Lanka, most of the banks lend while retaining at least a margin of 6-7% which is a huge margin, at global standards, over their overall costs. Having worked for a Fortune 500 company (Bank), my experience is that such banks maintain only about 1-1.5% margin above their overall costs. In Sri Lanka too, this position is soon envisaged. Under such circumstances with rapidly shrinking margins, banks will be compelled to reduce costs in all dimensions. As a result, banks have to reconnoiter to innovate to reduce costs, simplify processes and initiate totally unconventional systems to stay ahead of the competitors. Can the banks survive in Sri Lanka without innovation? Hence innovation is of paramount importance.

Another justification is that local banks carry a huge portfolio of bad debts. Have the local banks ever taken action to introduce proper "risk assessment tools" and credit analytical rating systems used by leading banks around the world to evaluate their credit proposals? These rating systems have been designed to be objective. Unfortunately, still most of the banks make crucial credit decisions on "subjective' basis.

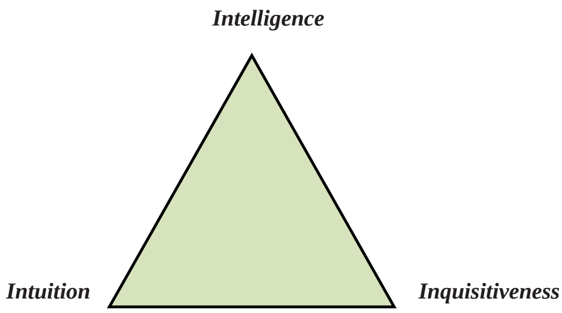
Have the Finance companies ever contemplated moving beyond "leasing and pawning" business? Finance companies are disastrously engulfed in these two options and have become myopic in lending. They badly need innovation to explore new lending avenues? If not, in about another 3-5 years, few other finance companies will perish or will be taken over by larger companies and the larger companies will be funded by the bankers' banker as they totally lack innovation. From another perspective, due to the lack of foreign exchange reserves or deprecation of rupee, if importation of vehicles is curtailed, what will be the future of these finance companies? Definitely the finance companies have to be innovative in exploring new lending avenues.

Some of the benefits of innovation are, competitive advantage over other competitors, exclusivity for inventions under the Intellectual Property Act, reduction of costs, products engraved, with uniqueness, less human involvement and low overheads, more customer attraction and less employee attrition.

Banking and innovation

Banking industry continuously needs innovation not only to introduce new products but also to reduce the cost structure and enhance the competitive advantage. The darker side of this is that banks should strive for innovation especially when the banking industry is faced with constraints as well as when the industry is performing well. But in Sri Lanka, when the competition is stiff, economy indicates a downward trend, banks strive to survive as the bankers are risk averse. In contrast, when the banks are performing well, they face complacency. This trend and the attitude have to be changed. Innovation is a never ending process..

The following 'Triple I" triangle amply demonstrates the importance of innovation.



(Author's work)

Banks and the bank employees should possess these 'I's if they crave to be innovative. They should be intelligent with adequate and excessive level of intelligent quotient (minimum threshold of 110/160). Secondly developing intuition is pivotal to innovation. The word intuition stems from the Latin word "Intueri" which can be described as the direct perception of the truth, independent of any reasoning with immediate apprehension. Generally higher level of IQ would lead to greater degree of intuition. Intelligence and intuition are cognitive attributes. Finally, bankers should be highly inquisitive and possess an "inquisitive mind" to explore and innovate. One may argue that possessing valuable experience is important. Experience is required but experience alone is grossly inadequate in this competitive world. Experience can be compared to swimming or floating on the surface in the sea. However gaining knowledge, being inquisitive and developing intuition can be compared to diving in the sea where the more one dives, the more one explores and the potential to explore will become enormous. Managers need experience to perform routine work but the leaders and the superiors should possess 3 Is' the right attitude for innovation. Hence acquire knowledge, develop intuition, be inquisitive and dare to innovate.

The elucidation of the above "Triple I" triangle highlights the accentuation of integrating the 3 Is' for innovation. However another school of thought argues that introverts are better innovators. Unique character of these introverts is that when they are alone, ideas just flow in to their mind. Hence it is suggested that banks do recruit employees with these characteristics and create a "think tank' and move with them to introduce innovations. The think tank members should be totally different to the bank executives, branch managers and even the top management. In mid nineties, when Honda Civic car which was designed by two persons aged over 50, was losing the American market towards the early 2000. The Company recruited 02 totally new designers as Management Trainers (MT) and assigned the challenge to design a new vehicle to recapture the lucrative USA market. The company regained the American market through Honda Aires and Honda Accord designed by these two MTs'. Hence the banks can take a leaf from this and recruit probably few students possessing over 120/160 for IQ who have achieved first class degrees from the Moratuwa University for instance and assign the task of innovation initially as the first step.

When the top management gets glued to certain patterns over a period of time, with so much of resistance to change and with eroding and diminishing ability for adaptation, innovation is perceived as a distant dream.

Theory of Abundance vs Theory of Scarcity

Abundance theory postulates that in organisations and banks some employees possess the required skills, extraordinary knowledge and the correct attitude. Generally these employees tend to climb the corporate ladder faster in comparison to their colleagues and pose a threat to their superiors as well due to their distinctive capabilities. Hence the theory explains that wise and smart CEOs and the superiors should accept these employees as 'strategic assets' and "future CEO' and retain them with the organisation to take the company to greater heights.

Scarcity theory explains that the CEOs and the superiors see these "smart employees" as a threat to their survival or to their henchmen's survival and sideline them or pave the way for them to leave the company creating an inconducive culture for the survival of the top management. Akio Morita who joined SONY as the CEO and revamped SONY (by producing the 'Walkman' in late 80's) through total innovation, was a victim of "scarcity mentality' from his former employer. Sidelining knowledgeable employees possessing '3 I's in banks or in other organisations due to scarcity mentality can be compared to killing innovation within the organisation. Hence dare to innovate by treating and retaining such employees.

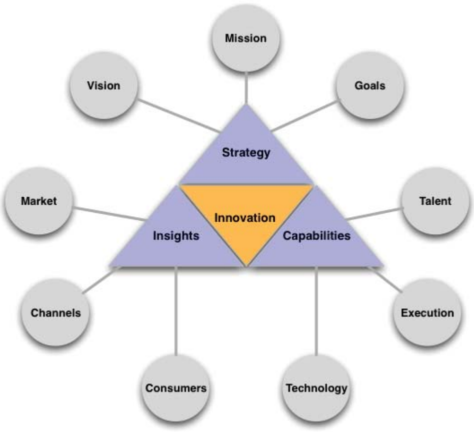
Myths in innovating

As soon as the word "innovation' is stated, people think only about technology. This is a myth. This myth can be compared to; when cost reduction is required, some are of the view that staff redundancy is the only available option which is another myth. There are lots of other ways for innovations. Creating innovation in banks can be in terms of processes, human resources, innovations related to the value chain, business development and marketing, customers and even at the strategy formulation level.

Some of these areas where banks can strive for innovation with simple examples are depicted below.

- Have the banks ever inquired from the customers how to improve their products and services, what they need, whether there are any "gaps"? What are the suggested incremental changes? etc. Since most of the customers have multiple banking arrangements, these customers exactly know the gaps between the "expected and experienced". This is market driven innovation.
- Heads of HR in banks should be visiting branches or at least the Regional Offices to meet the employees rather than requesting them to come to Head Office or Colombo. Visiting branches periodically will make them understand the real life HR issues they face in branches. Through employee engagement and employee motivation. Do banks encourage employees to make suggestions with innovative ideas and reward them if such suggestions are good enough to be implemented. For instance, Levi Strauss (Levi's) multinational company's turnover was eroding in 2011/2012. Mr. Chip Bergh new CEO of Levi's started visiting their global offices in many countries to motivate staff, carrying out mystery shopping by himself, ascertaining the gaps in showrooms, exploring the new innovations, and market opportunities despite his busy schedule. Why can't Heads of HR visit branches in Sri Lanka if Chip Bergh can go around the world? Levi's turnover indicated an 8% growth and the multinational is on resiliency. Yoga denims will soon be in the market from Levi's as a result of opportunities observed during his visit to India. Heads of HR should change the HRM strategies to be congruent with the evolving world and recruit employees with more IQ, multiple intelligence, and create a conducive culture and atmosphere for innovation and abundance theory. Heads of HR, get ready to change and dare to innovate. This is a simple example of HR driven innovation.

- Scrapping unproductive meetings is also an innovation. Not to increase the number of meetings but to reduce them. Most of the Fortune 500 companies conduct only a few productive and crucial meetings per month. These meetings are well structured and highly objective. Higher number of meetings is a reflection of a "problematic" situation in the organisation. Dare to reduce the meetings. This is management driven innovation.
- "Killing" of unproductive and uneconomical products is a must in banks. Careful analysis of the product portfolio would reveal that 40-50% of the products introduced by the banks do not contribute to the overall profitability of such banks. However banks keep on printing advertising stationary for such products, transporting them to branches, without carrying out a detailed analysis of those loss making products. Hence "killing' of such products is a must. Do banks do "killing" of products? Dare to 'kill' products". That's why modern banks have Business Development Divisions and not marketing divisions.
- Brain-storming, Do banks in Sri Lanka carry out brain-storming sessions to gather information, concepts, ideas from the Board of Directors, senior staff, employees, trade unions etc at least once in two years? Needless to say, brain-storming sessions will generate a large quantum of new ideas for product development, market development, cost reduction, strategy formulation, technology related issues and future direction for them. Effectiveness of such brain-storming sessions can be enhanced by including a few provocative outsiders and insiders such as nasty customers and union leaders respectively. This can be termed as "generating abstract ideas for innovation".
- Banks can form collaborations with R&D companies or similar companies or even with the suppliers for innovation. With a world of abundance of knowledge, not all smart employees work in banks. Hence the next innovation may spring from a young researcher employed at some other firm. This is "synergising innovation through collaborations and trading efforts'.
- Banks as a policy and strategy, should incorporate the importance of innovation at the strategy formulation stage. When the top management possesses 3 Is, naturally innovation will be engraved and embedded to the corporate strategy along with super ordinate goals. The following model denotes the concept.



(Source: www.google.l

The above model explains that innovation should be at the 'core' strategy formulation stage. An analysis of the fiercely competitive industries around the world will reveal that Pharmaceutical industry, insurance industry, telecommunication industry, automobile industry and the mobile phone industry have taken innovation as the "core" element at the strategy formulation stage. Their business, market share and industry will heavily depend on "innovation' and nothing else.

Conclusion

This article elucidated and rationalised the exigency for innovation in the banking industry highlighting several pragmatic examples from the perspective of other leading industries. Elaborations in different dimensions adequately rationalised the crying need for innovation mainly from the "other" are has avoiding the technical perspective.

Hence bankers should dare to innovate if they intend to take the lead.