

Service Innovation in Banks for Sustainability

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Abstract

During the past one decade, one of the sectors which underwent visible sea-change through innovative strategies is undoubtedly the banking sector. The sector has been growing at a fast pace in India and is challenged with several aspects like new regulations from time to time, changing customer needs and perceptions, changing technology and changing operations. Technology has been playing a crucial role in the tremendous improvement of banking services and operations. Indian banking industry has moved way ahead both in terms of offering value added services and delivering quality service. It was thought that the world financial crisis would impact the Indian banking sector in a serious manner. But, because of the strong foundations of Indian banking system with the support from well structured financial systems, the anticipated impact of the world crisis was almost insignificant. Instead, it helped the banks to get strengthened further and become closer to the customer with innovative approaches. Banks appear to be on the path of achieving sustainability and a long-term survival because of innovation. This study aims at identifying the initiatives of some public and private sector banks in India towards sustainability through a planned and systematic Service Innovation. Study also focuses on some of the recent innovative trends in banks in India. Innovation models of Bessant and Tidd (2007) and Six Dimensional Model of Service Innovation developed by Pim den Hertog, Wietze van der Aa and Mark W. de Jong were used for this purpose.

II. Objectives of the Study

- To identify and analyze service innovation initiatives in select Private and Public Sector banks
- To make a comparative study of these initiatives with reference to the two innovative models of Bessant and Pim den Hertog

III. Methodology

The study is a conceptual one with detailed review of literature. For the purpose of the study, the official web sites of the four banks were considered along with additional literature. The period of the study is for three months from January to March, 2011. Two models of innovation from the available literature are considered for the study. They are,

- 4Ps of Innovation model by Bessant and Tidd (2007)
- Six Dimensional Service Innovation Model by Pim den Hertog (2010)

The above two models are applied on the current strategies of service innovation adopted by two public sector banks and two private sector banks of India. These are,

- State Bank of India
- Andhra Bank
- YES Bank
- ICICI Bank

An analysis has been carried out by applying the above models for identifying and comparing various strategies adopted by the above banks in line with the selected models.

IV. Innovation in Banks in Terms of Services

Innovation has always been a sought after area for organizations in any country. Innovation is identified as the main driver for companies to prosper, grow and sustain a high profitability (e.g. Drucker, 1988; Christensen, 1997). Research (e.g. Ford, 1996; Kanter, 1988; Van de Ven, 1986; Wolfe, 1994) suggests that the term 'innovation' can be defined in terms of a new or innovative idea applied to initiating or improving a product, process, or service. Innovation has been a buzz word in banking right from beginning. Many researchers have contributed their best towards developing frameworks for innovation. Several authors have developed various frameworks, drivers, and steps on how to be innovative from an organization perspective.

The attempt towards innovation has been more so in India due to the country's emergence and growth, more or less, in all the sectors. The banking industry has been on an unprecedented growth trend during the past decade in the country. The sector today is fast paced and is constantly in the throes of change, with new regulations, new processes and new policies in place. Technology has played a critical role in the past in shaping the way things are today, and will continue to do more than ever before. From being just a support function, technology is now regarded largely as a strategic function aiding banking organizations. Most of the success achieved by this industry can be attributed to the ever changing innovative trends in technology. Service operations like Service Delivery Systems and Service Quality have dramatically become customer-centric during the past decade. The importance of service delivery and its impact on improving satisfaction and retention of customers, improving sales and market share, and improving corporate image cannot be overstated. (Lewis et al., 1994). Banks in India and other countries have largely implemented service delivery technology as a way of augmenting the services traditionally provided by bank personnel. Implementation results both from the need to reduce the cost of delivering service primarily through personnel, and the corresponding need to meet the challenge posed by technologically innovative competitors (Byers and Lederer, 2001). Some of the reasons for the awareness by the banks regarding these challenges are impact of deregulation, rapid global competition and networking, the rise in personal wealth and increasing customer expectations. Many external forces like political, economic, social and technological and internal forces like customers, employees, organization structure, product development, service delivery have great impact on the innovation in banking (Chanaka Jayawardhena and Paul Foley, 2000). Innovations are discontinuous because innovation is difficult and "only accessible to people with certain qualities" (Schumpeter, 1934, p. 228). Schumpeter recognized and felt that entrepreneurs seek profit through innovation, transforms the static equilibrium into a dynamic process of economic development which in turn revolutionizes the patterns of production by exploiting an innovation or new pattern of production. Scott M. Davis and Kristin Moe (1997) have framed eight steps that effectively take a company from customer-driven needs and wants assessment to final commercialization. These eight are, Planning and Direction setting, Market problems and need exploration, Problem solving and idea generation, Concept development and business analysis,

Prototype development, Plant scale up, Commercialization, Post-launch check up. Joseph P. Eshun Jr., 2009 has discussed the role of innovation in entrepreneurship in his article titled 'Business Incubation as Strategy' and concluded that the three inter-related pillars of entrepreneurship, creativity and innovation are important for business incubation.

V. Service Innovation Models

Several innovation models have been proposed by various authors under various titles. Innovation has been categorized into business model innovation, operations innovations, product innovation etc. Business model innovation refers to activities that considerably change the structure and/or financial model of a business. Every company has a business model, whether they articulate it or not. At its heart, a business model performs two important functions: value creation and value capture.

Operations innovation defines improvements in the effectiveness and efficiency of fundamental business processes and practices, while product/services/markets innovation refers to the creation of new or fundamentally differentiated products, services or activities in markets.

For the purpose of this study, two models of innovation are considered. The first one is Bessant and Tidd's model of 4P's of Innovation and second one is, Pim den Hertog's Six-Dimensional Service Innovation Model (2010).

VI. 4Ps of Innovation

Bessant and Tidd (2007) identified 4Ps of innovation: (1). Product Innovation, (2). Process Innovation, (3). Position Innovation and (4). Paradigm Innovation.

Product Innovation is new designs of products or features seen in tangible products such as house appliances, etc. Process innovation consists of fundamental changes in fabrication procedures or modifications in manufacturing methods, sequence, or equipment used to create products, as exemplified by Ford's pioneering invention of the assembly line and mass production techniques. Position innovation refers to contextual shifts with regard to the way products/services are introduced. Illustrating this, Bessant and Tidd (2007) cite the "makeover" of Lucozade in UK (an established glucose-based drink that was traditionally used to help children and invalids in convalescence) where it has been repositioned as a health beverage aimed at the growing health and fitness market.

Finally, paradigm innovation refers to changes in mental models which frame the actions or behaviors of a social entity and motivates their interest in performing new routines or engaging in practices that may have previously been devalued. For example, consumer skepticism about on line shopping during the early years has declined partly due to advances in computer graphics and flexible merchandise return policies. As a result, the legitimacy has increased as more and more consumers have embraced and endorsed the practice. Thus, a paradigm innovation may lead to shifts in perceptions, values, and belief systems that generate new actions and behaviors as well as motivate new practices or routines.

VII. Six Dimensional Service Innovation Model

A conceptual framework for service innovation was developed by Pim den Hertog (2010) through a Six-Dimensional Service Innovation Model. They define Service Innovation as a new service experience or service solution that consists of one or several of the following dimensions: new service concept, new customer

interaction, new value system/business partners, new revenue model, new organizational or technological service delivery system. The first dimension is Service Concept or Service Offering. The second dimension is the New Customer Interaction and the role customers play in the creation of value. The third dimension is the New Value System or set of new business partners who co-produce a service innovation. The fourth dimension is related to new revenue model. The fifth dimension is the new delivery system; personnel, organization, culture. The sixth dimension is technological, which is a new service delivery system.

VIII. Application of Innovation Models

The two models of innovation were applied on innovative strategies of four banks in India. The new innovative ideas of these banks in terms of services offered are mentioned below. For the purpose of study, recent and innovative services are only considered.

A. State Bank of India

State bank of India, the largest public sector bank in India, offers the following innovative services.

1. SMS Unhappy

This innovative idea was initiated by Mr. Siva Kumar, Dy. Managing Director of SBI. Any customer who wants to lodge a complaint sends the message "Unhappy" to a specified number (8008202020). The Happy Room then calls the customer and records the details of the complaint. The complaint is then forwarded. SBI has received thousands of such messages since its commencement and this service is a great success. Other banks have also started imitating this service.

2. Crorepati Only Branch

SBI has launched first of its kind branch for High Networth Individuals (HNI) where it takes minimum Rs 1 crore to open an account, and that too on invitation only. This branch offers specialized banking facilities like relationship managers, 24/7 lockers, extended banking hours, doorstep pick-up and drop facilities, in addition to pampering customers five-star amenities at the branch. "We have opened as many as 50 accounts so far. We are confident of opening another 150 by the end of the current fiscal," as per Mr. Shiva Kumar, Chief General Manager, SBI4. According to SBI, an attractive feature of the branch is 24 hour open lockers. The bank also is providing special dressing rooms for customers to cater to the needs of late night function goers segment.

3. One Rupee Bank

In its urban financial inclusion initiative, SBI has started a new innovation through 'One rupee bank'. A customer can open an account with just one rupee through the bank's kiosks⁵. This is a part of SBI's service through kiosks, an initiative to provide banking services to under-banked sections of society.

Other innovative strategies of SBI also include, Online Education, Online Home, Online SME, Online Demat, Online Car Loans, USA Patriot Act Certification, SBI Loan for Pensioners, e-Invest (IPO investments. SBI Yuva Card (18-30 years), CAG (Corporate Accounts Group), Cyber Plus and Swarojgar Credit Card etc.

B. Andhra Bank

The innovative services offered by Andhra Bank are, SMS Upset, Internet Banking, Mobile Banking, MPay, SMS Banking, AB Online Shoppe, AB Bill Pay, AB Lock Box Facility (NRI

cheques), AB Speedway, Credit Flow to Minorities, AB Kiddy Bank, IndiaFirst Life Insurance etc.

C. YES Bank-Innovation at YES Bank7

The following are some of the innovative initiatives of YES bank, which is one of the leading banks in the country.

1. Outsourcing

Technology is outsourced, ATMs are outsourced, even branch buildings may be outsourced.

2. Knowledge Banking

Apart of providing common banking solutions, the bank executives also act as consultants delivering business solutions.

3. Microfinance Direct

Among the earliest to start offering micro-loans directly to poor customers.

4. Futuristic Branch

A chip embedded in the debit cards of top customers alerts staff when one walks in. An executive meets him and greets him by name. This technology is on trial in the South Extension branch in Delhi.

5. Double Security

Besides their regular password, a second code is also generated just in time, and delivered to the customer's mobile.

6. Honey Farming

The bank has extended small loans of about Rs 25,000 each to over 2,000 bee farmers. The farmers provide their stocks of honey as collateral.

7. YES

Professional Entrepreneurship Programme (YPEP): The bank tapped the B-school alumni network to hire top-notch graduates unhappy with the jobs they had chosen. That's now become a campus strategy. Currently, there are 270

8. Responsible Banking

A key differentiator for the bank, the programme's aim is to develop innovative business solutions for social and environmental

problems.

9. Money Monitor

Savings account customers get an online personal finance and wealth management software.

10. YES Assist

An innovative service operation to provide Concierge Services, Medical Assistance, Home Assistance, Automobile Assistance and Travel Assistance

YES Bank's Direct Banking strategy focuses on leveraging of technology to bring about a paradigm shift in the way Banking services are provided to the customers in India. YES Bank has adopted a complementary "Bricks & Clicks" model and developed a UNIQUE DIRECT BANKING proposition to reach out to its customers with superior Product Delivery and internationally benchmarked Service proposition.

D. ICICI Bank

Undoubtedly, the pioneer of Private Sector banking in the country, ICICI Bank has lot of innovative feathers in its cap. Some of its recently launched innovative services are,

- Online Account Opening
- Money Manager
- Gold Online
- Mutual Funds Online
- Forex Online
- Life Insurance Online
- Shop on iMobile
- Mobile Money Transfer (IMPS)
- Investments at ATM
- Payments and Transfers at ATM
- Compliments and Complaints
- TV Banking

IX. Analysis of Service Innovation in Banks

The service innovation of the above four banks have been analyzed and various services offered by these banks were tried to fit into the 4P's Innovation Model and Six Dimensional Service Innovation model.

The results of the analysis are presented in the following two tables.

Table 1: 4P's of Innovation Model

	State of Bank of India	Andhra Bank	ICICI Bank	YES Bank
Product Innovation	One Rupee Bank	AB Kiddy Bank	Online Account Opening	Honey Farming
Process Innovation	SMS Unhappy	SMS Upset	Investments in ATM	Responsible Banking
Position Innovation	Expansion abroad	Technology Updation	IMPS	Professional Entrepreneurship Program
Paradigm Innovation	Mobile Banking	Internet Banking	Customer Friendly	Bricks and Clicks Model

Table 2: Six Dimensional Service Innovation Model

	State of Bank of India	Andhra Bank	ICICI Bank	YES Bank
Service Concept or Service Offering	SMS Unhappy	SMS Upset	Mobile Money Transfer	Knowledge banking
New Customer Interaction	Crorepati Branch	Credit flow to minorities	Financial Inclusion Initiatives	YES First for Women
New Value System	Link with Kirana Shops	AB Lock Box Facility	Online Banking	Money Monitor
New Revenue Model	One Rupee Banking	IndiaFirst Life Insurance	Money Manager	Microfinance Direct
New Delivery System	One Rupee Bank	Mobile Banking	Online Account Opening	Double Security
New Technology	Banking Anywhere	Internet Banking	TV Banking	Technology Edge and Outsourcing

X. Conclusion

It is observed that banks in India are moving towards sustainability through innovation and innovative service operations and offerings. The sample considered here for analysis has proved this point very clearly. The trend is evident in both public sector as well as private sector banks. It is found that both types of banks have embraced service innovation as a part of their future banking strategy and are moving continuously towards customer-centric and service-centric banks. It is also found that the innovation is not limited only to product or process innovations but also to business model innovation, operations innovation, markets innovation, and more importantly, paradigmatic innovations. These banks must create and sustain an environment that promotes creativity, leverages diversity, and facilitates multidimensional collaboration of resources and technologies in pursuit of desirable social and economic outcomes in future.

The rate at which innovations are adopted by firms constitutes an important part of the process of technological change.⁹

Out of the four banks, ICICI is found to be more aggressive in innovation and it is positioned ahead in terms of services offered.

XI. Scope for further study

There is lot of scope for further research in this area of service operations in banks. The models discussed in this article can further be applied by conducting an empirical survey to analyze the perception of customers on these banks.

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