

Towards a practical application of innovation theory for financial services firms – a quick step from academy to tooling

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Case background

This presentation proposes an approach for better practical service innovation management, applying established innovation theory. This will be illustrated by how work can be improved with the support of a software tool.

Innovation is emphasised as a key driver for corporations to survive. We hear in the press and corporate mission statements about the need to be innovative. Sometimes it is difficult to understand what is meant by being innovative: should we change a little or should we try to do totally new things?

Managers in companies should also keep track of multiple sources of innovation. They need to look out for new technologies, listen to customers, collect ideas from employees, follow rules and regulations and find ideas in other markets and other industries (eg Dosi, 1982 and von Hippel, 1988). The skills needed to manage innovations are different depending on the type of innovation (eg Benner & Tushman, 2003 and Henderson & Clark, 1990).

It could be expected that approaches to innovation management are well advanced in practice. However: a recent study from the financial services industry (Freij & Sköld, 2009 and Sköld & Freij, 2010) suggests that it is not clear which types of innovations are produced, and how they should be prioritized. With the basis in over 40 service innovation cases, a test was made of how a tool could improve service innovation management.

The cases are based on data from a collaborative research study (Werr & Strannegård, 2010). The financial services industry was selected since there is a potential for finding interesting cases – this industry produces a constant flow of new service offerings. The researchers also had good access to situations where research data could be collected. Semi-structured interviews were performed with 20 executives in operative positions working with service design and development. A rigorous sampling model was employed to select the firms that participated in the study. A qualitative research approach was selected to generate new insight in a developing research field (eg Eisenhardt, 1989).

In order to test how a tool could improve the management of the above innovations, the following worksteps were performed:

- 1) Categorization of the cases in two dimensions: a) innovation types according to a tentative classification using Henderson & Clark, 1990, b) a business management structure (from IBM)
- 2) Linking of the cases to (one or more) innovation sources
- 3) Attaching various base information, such as cost, completion rate, business benefits, etc
- 4) Production of selected management reports for illustrative purposes

Based on this exercise it is suggested that organisations would benefit greatly from using a tool based approach for managing innovations. The structure of the tool revealed a number of clear patterns in the innovation portfolio that was not seen from the “raw data”. Using such an approach will improve decisions on which services the firm should prioritize, as well as which innovation portfolio should be promoted given the structure of a particular part of the industry (Jacobides et al, 2006 and Pisano & Teece, 2007).

Take home

This case presentation aims to show that academic service innovation theory can be applied to practical management work. This step is shorter than it might appear, and that the benefit of bridging this gap is potentially great for both fields.

If organisations approach the management of innovation in a structured way the benefits of categorization and tooling will be harvested. These benefits will range from quantifiable to more intangible:

- Better focus of investment budget
- Conscious decisions on which projects to pursue
- Decreased resource use in the innovation administration process
- Better linking to the organisations core skills
- Possibility to be more foresighted – acting instead of reacting

There is usually no silver bullet in the practical world of service innovation... there are some clear challenges that organisations should manage in order to achieve these benefits:

- A tendency to focus on short term costs and not long term benefits
- Innovation organisations tend to be less persistent than operational and / or project organisations
- There are some training time needed to appreciate the use of a structured way of working
- Service innovations are intangible, and hence difficult to put focus on

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