How Does the Economic Crisis Influence the Way Banks Deal with the Topic of Innovation?

A Qualitative Inquiry

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Extended Abstract

Introduction

In open markets, global competition and economically rough times, the competitiveness of a company consistently determines its success or downfall. Teece and Pisano (1994) point out that those companies are successful, which react to changes in time; i.e., those that react fast and flexible to innovation, and also have a management, which effectively coordinates internal and external capabilities. The importance of innovations is widely acknowledged in science. For example, Pleschak and Sabisch (1996) highlight that innovation has become an indispensable requirement for the successful development of all companies. In particular, the financial industry has focused on developing and issuing radically innovative products aiming at high profit margins. In general, the financial industry has been characterised by a highly dynamic environment coming along with an intense pursuit of innovations. Almost all banks could be observed as taking risks in order to keep pace with those radical advancements. However, owing to a conservative organisational history, some banks appeared to be less able to foster the development of highly innovative products. It seems that such an ostensible liability became a strength during the financial crisis. At this, the question arises how companies, having been less innovative before and during the financial crisis, deal with the issue of innovation after the crisis' outbreak.

However, up until now, there are hardly any studies dealing with this topic. We seek to address this research gap by conducting a qualitative, exploratory study in a large German bank with a conservative history. In particular, semi-structured interviews were conducted with nine persons working in middle management positions of this company. An analysis of these interviews highlights that the company which initially tried to keep pace with its competitors by devising aggressive innovative strategies has become more risk-aware and self-reflective in determining a more suitable innovation strategy.

We believe that our study will make the following major contributions: On the one hand, our study seems to be the first to empirically investigate how companies, having been less innovative before and during the financial crisis, deal with the issue of innovation after its outbreak. Thereby, the study contributes to the extensive body of literature on innovation. On

the other hand, it seems to be relevant for practitioners, too: By means of this empirical investigation, it becomes apparent that each company should find its own way of dealing with innovation or innovative products, instead of jumping onto the bandwagon.

Methodological Approach

Data and Sample

This study is based on a sample of nine interviews with managers of a large German company in the financial industry. The nine interviewees have been chosen according to judgement sampling (Blumberg, Cooper, and Schindler, 2005). At this, interviewees were selected who worked in a leading position in the Corporates & Markets department and therefore had in-depth knowledge about strategic aspects of this area. Initially, ten interviewees were selected. However, due to lack of time, one of them could not participate in our research. All interviewees were male and had several years of experience within the financial industry.

The semi-structured interviews which took two hours each were conducted in August/September 2008. The research team that worked on the interviews consisted of three researchers from a German university of whom one was a female research associate having been in charge of conducting the interviews, one of them was a male professor and one was a female research associate having been responsible for analysing the interviews. Questions for the semi-structured interviews were constructed based on strategy and innovation literature (e.g., Welge and Al-Laham, 2008; Burr, 2004). In particular, in each interview the following questions were addressed: (1) What is the vision of your company? What do you expect to be characteristic of your company in two years? (2) What are the strategic objectives that your company has set with regard to innovation for the next 18 to 24 months? What role do innovations play in your company? (3) How do you value the current and future competitive situation of your company? (4) What are the current strengths of your company? Do these strengths contribute to reaching the strategic objectives with regard to innovation? (5) What are the current weaknesses of your company? Do these weaknesses come along with risks for reaching the strategic objectives with regard to innovation?

All interviews were recorded and subsequently transcribed by an independent person. Later on, the transcripts of the interviews were checked by the interviewer. As common practice in science, we assured the interviewees of anonymity and sought consent for tape-recording the interviews.

As already mentioned, the interviews have been conducted in summer 2008, close to that point in time when the financial market crisis spilled over to larger parts of the economy. Already in 2007 and in the first half of 2008, first indications of the subsequent financial turmoil became apparent. Examples for such indications are the downturn in the US real estate market, downgrading of securities by rating agencies, breakdown of several hedge funds, liquidity problems at German banks due to bad speculations in the US real estate market, and so on.

The company under investigation operates as a traditionally conservative financial institution, relying primarily on standardized products like investment funds or ordinary deposits. Reacting to competitive pressures within the financial industry, efforts have been made in the past to keep pace with the market by forcefully aiming at establishing innovative dynamics or developing innovative products, respectively. In particular, the Corporates &

Markets department has been extended over the last 1.5 years and a specific innovation strategy has been devised. The latter strategy aims at positioning the company as a supplier of capital market products and as an excellent service provider in the long-term.

Analyses

As qualitative data have been collected by means of the semi-structured interviews, our data analysis is also of qualitative nature. Based on the interview transcripts, the research team identified the most important topic areas. At this, we particularly focused on specific aspects of already introduced innovations and future innovation strategies. The identified topic areas served as a basis for grouping interview data. In order to be able to draw conclusions from the interviews with regard to the representativeness of the sample, the grouping of data also comprised an analysis of how often certain aspects were mentioned by different interviewees. In a second step, the resulting categorization was presented to interview participants, who then were in charge of critically reflecting and challenging the facts being presented to them. A consensus was found after several hours of in-depth discussions of the prepared documents.

Results

Until September 2008, the organizational innovation strategy can be described as an aggressive hunt for catching up competitors' achievements. In that way, the financial institution has been a follower in bringing to market the same products and services as their competitors. Nevertheless, one cannot speak of innovative activities in the classical meaning. All newly introduced products and service areas have not been new to the market and were thus no real innovations (Johannessen, Olsen, and Lumpkin, 2001, p. 22). It seemed that in the pursuit of becoming a highly innovative company, the strengths that made the institution successful in the past were left aside, and rather bandwagon trends were followed. These facts become apparent from the interviews as interviewees actually speak of having devised and introduced strategies for bringing about similar performance like competitors with the same (or similar) instruments. Interestingly, these observations of companies jumping onto the bandwagon seem to be generally characteristic of the financial industry.

A remarkable break in this pattern of innovative efforts, coming along with the emergence of the financial crisis, can be discerned from the interviews. That is, the investigated company experienced that competitors who had highly invested in high growth and innovation strategies, pushing to market highly innovative financial instruments years before, were suddenly struggling as a result of the financial crisis. In contrast to that, the examined company with its conservative tradition and still conservative products did not experience such a heavy downturn in performance if compared to the market. This incidence within the financial industry and the larger economy seems to have influenced the company's strategic view on innovation. The exogenous shock, lead management to revise the general handling of innovation in adapting it more towards the strengths and characteristics of the company. Thus, for example intense programs for Human Resource (HR) development were designed. Competence profiles were defined that determined desired and needed employee competences. According to such profiles, recruitment as well as HR development were designed and accomplished more effectively. Furthermore, a restructuring of processes and organizational relationships was planned at the time of the interviews in order to eliminate redundancies and enable more effective work. Lastly, an intense reflection of organizational culture and in particular leadership culture had been initiated recently. By this means, the

company could find its own way to innovation with innovative products for future performance at the aftermath of the crisis and may be even during the crisis. This fact highlights some degree of rethinking of innovative efforts and an uncoupling from bandwagons.

Conclusions and Implications

As with all case studies, there are several limitations that readers should keep in mind in relation to the study's contributions. First, the sample consisted of only people working in leading positions of the company. Due to the lack of random sampling, the answers of the interviewees might not reflect attitudes and efforts of the whole workforce with regard to innovation. This limitation goes hand in hand with the limited generalisability of the results. It cannot be ruled out that responses of our interviewees have been influenced by social desirability. However, the latter limitation applies to all interviews and surveys and we tried to minimize this problem by assuring the interviewees of anonymity.

After all, this case study has shown that companies in the financial industry, one of the industries that has been hit the most by the economic crisis, seem to have been susceptible for jumping onto bandwagons and aggressively hunting to catch up to their competitors. Yet, precisely these strategies, bringing about radical and highly risky innovative products (and may be even processes) appear of having been the triggers of the crisis. A chance for financial institutions today is to find their own strategies into an innovative future by considering on the one hand their human resources as well as organizational strengths and at the same time fostering an environment or a culture in which the employee is structurally as well as in relation to his competences supported.

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