

Innovation as a value in commercial organisations

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Abstract

This paper gives a brief overview of different approaches of definitions of innovations and tries to categorise it generally. Furthermore, the attributes and relevance of services will be discussed and pointed out. In the research part it will be shown how service agencies, in this case banks from the Baltic States, organise its innovation management. There is a particular look on how the process of idea-generation is made and what methods of controlling and evaluation of success of innovation are used. Additional to that it will be presented how innovations in commercial banks are developed and supported and how it increases the value of the whole company. The results will be pointed out through theoretical based information on the one hand and on the other due to surveys directly in particular banks. Finally this paperwork devises a draft for innovation strategies with reference to buyers-, market-and producers view.

Keywords: innovation, classification, financial services, banks, research, product – innovation – Market -Cube, evaluation, strategy

Introduction

1.1. Prologue

In present time almost every big company is acting internationally and focuses on global markets. In consequence to that there is increasingly pressure of competition between commercial organizations that want to be unique and stand out of the crowd. Four major blocks how to build up competitive edge can be point out, efficiency, customer responsiveness, quality and service offering and Innovation.⁵ Therefore the impact of innovation with regard on strategic decisions made by the top management will become an essential aspect. Additionally it can help to compensate the decline of product lifecycles, to make processes more efficiently and finally raise potential for growth.⁶ As a result an adjusted strategy concerning external market conditions and internal competences ensure long-termed survival

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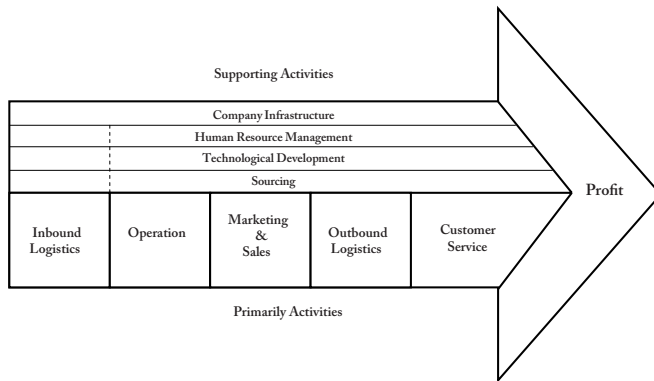
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5 Cf.: Hill Charles, W.L., Jones, Gareth R. (2007) Strategic Management. An Integrated Approach. p. 76

6 Cf.: Lange, John, H. (1994). Produktinnovations – Controlling, Konzept und Instrumente für eine bereichsübergreifende Planung und Kontrolle der Innovationstätigkeit. MÜNster ; Hamburg: LIT Verlag, p. 1-2

and maintain sustainable success.⁷ Actually, all findings and researches in the practical part of this work have a special attention on banks basically in the Baltic States.

Figure 1: Value Chain⁸



1.2. Methods:

Information for the theoretical background is drawn from books, scientific magazines and the World Wide Web. The data for the research part are collected by oral interviews with 8 executives in banking business in the Baltic States. Those interviews were standardised and full structured. Therefore, a certain questionnaire which was equalled valid for every interview was developed including questions which demonstrate how banks organise, support and evaluate its innovation (see chapter 4.). An advantage of those standardised interviews is to make it possible to point out and compare different ways of managing innovations in banks.⁹ Another benefit is to have the possibility of asking more complex questions and assure that the interviewed person understands it in the right way.¹⁰

7 Cf.: Gobeli, David H., Brown, D.J. (1987). Analyzing Product Innovations. *Research Management*, 30 No. 4, p. 25-31

8 Cf.: Porter, Michael E. (1996). *Wettbewerbsvorteile* (4th ed.) Frankfurt/Main; New York: Campus Verlag, p.62

9 Cf.: Schnell, R., Hill, B. P., Esser, E. (1993). *Methoden der empirischen Sozialforschung* (4th rev. ed.). Mÿnchen; Wien: R. Oldenbourg Verlag GmbH, p. 330/331

10 Cf.: Weis, H. C., Steinmetz, P. (2000). *Modernes Marketing fÿr Studium und Praxis: Marktforschung* (4th rev. ed.). Ludwigshafen: Friedrich Kiehl Verlag GmbH, p. 84

1.3. Objectives:

This paper should give a brief overview of different explanations of the term innovation and classify it in a general structure. Furthermore, several approaches of services are point out and it's special features and crucial importance of nowadays economic development is discussed.

In order to the global competition companies are faced with, this paperwork is focused on innovation as an instrument to create unique sales proposition, gain competitive advantage, customer loyalty and finally makes profit. With regard to a wide range of different fields in business this approach put banks as financial institutions in the centre.

In the research part it should be examined how banks define this term and how they handle innovation, which strategy they pursuit and how successful they are with it. Therefore, the Product – Innovation – Market -Cube has been developed which should facilitate the generation of innovation strategy with regard on the company's internal abilities and external economic environment.

2. Theoretical background

2.1. History

The theory of innovation dates back to early studies on the capital system. It was Bacon, at the beginning of the 17th century, who suggested a 'science-created utopia' on the role of the developments in science and technology in society. His views were opposed by Bernal of his generation, who gave importance on the uses of new discoveries for societal wealth rather than their own creation. Later, Adam Smith, in the second half of the 18th century, suggested technological change as a major concern for the development industrial production. In the first half of the 19th century, Marx put forward the view that technological advancements and improved industrial production had displaced the 'worker,' causing confusion in the social order. Lately, it was Schumpeter, in the first half of the 20th century, who first mentioned innovation as "keeping the capitalist engine in motion." Schumpeter suggested innovations to be imperative for economic growth, commercial profit, and thus, public wealth. Schumpeter's theory has later been developed by neo-Schumpeterian economists such

as Freeman and Dosi. Recently, contributions of diverse disciplines including Design, Management, and Marketing have developed the modern theory of innovation.

2.2. Definitions

According to the Latin word *novus* (English: new) and *innovatio* (English: Improvement)¹² an innovation is “the introduction of new things, ideas or ways of doing something.”¹³ There are several explanations in literature. One the one hand exponents of different science deal with that topic on the other hand scientist within the same discipline have divergent points of view how define innovation depending on their individual priority.¹⁴

A very common model was described by Barnett, “An innovation is (...) any thought, behaviour or thing that is new because it is qualitatively different from existing forms.”¹⁵

Alternative examples of different definitions are given here: Vedin (1980) P.22:

*“An innovation is an invention brought to its first use, its first introduction into the market.”*¹⁶

In opposite to this it is been controversial discussed that there is a differentiation. An Invention can be an essential part of innovation but it is a completely new cognition primarily in technical domain and so it is the outcome of research and development activity. It just becomes an innovation after successful realisation and user acceptance.¹⁷

To be in accord with that explanation Brockhoff defined innovation as application of new products and processes. Subsequently it is emphasised that those both terms can be merged together and even expand by diffusion and imitation to a process of Innovation (see Figure 4).¹⁸ “Is there any invention which obviously promises economic success, it’s been required investments for preparations, production, marketing and market development. If through those efforts the launch into the market or a new procedure can be achieved indeed it is a product innovation or process innovation.”¹⁹ Rogers adds second criteria additionally to the novelty of products and processes: Perception.

“An innovation is an idea, practise or object that is perceived as new by an individual or other unit of adoption” (It matters little, so far as human behaviour is concerned, whether or not an idea is “objectively) ”new The perceived units of the idea for the individual determine his or her reaction to it. If the idea seems new to the individual, it is an innovation.”²⁰ This is summarized and demonstrated in 1987 published “product innovation matrix” by Gobeli and Brown.

2.3. Classification of innovation

In literature is a wide range of various approaches how to define and classify different types of innovation, however there are also similarities referring to those issues. Thus this work classifies innovation in the following structure.

2.3.1. The result-orientated approach

This approach attends to that innovations are the result of an improvement or renewal process including the first economic utilisation of processes or products. Furthermore, this can be separated in a subjective and content dimension.²¹

11 Cf.: Tidd, J., Bessant, J. and Pavitt, K., 2001, *Managing Innovation; Integrating Technological, Market and Organizational Change.* (2nd ed.). West Sussex: John Wiley & Sons Ltd., p. 11-12

12 Cf.: Duden

13 Cf.: Oxford University Press: http://www.oup.com/oald-bin/web_getald7index1a.pl

14 Cf.: Schneider, Markus (1999). *Innovation von Dienstleistungen: Organisation von Innovationsprozessen in Universalbanken.* Wiesbaden: Betriebswirtschaftlicher Verlag Dr. Th. Gabler GmbH; Deutscher Universitäts – Verlag GmbH p. 7

15 See: Barnett, H, (1953). in Hauschildt, J.(2004). *Innovationsmanagement* (3rd ed.). München: Verlag Franz Vahlen GmbH, p. 7

16 See: Vedin (1980). in Hauschildt, Jürgen (2004) *Innovationsmanagement*, p. 7

17 Cf.: Bergmann, Gustav (2000). *Kompakt – Training Innovation.* Ludwigshafen: Friedrich Kiehl Verlag GmbH, p. 22; Lange, John., H.(1994). *Produktinnovationen – Controlling, Konzept und Instrumente für eine bereichsübergreifende*

Planung und Kontrolle der Innovationstätigkeit, p. 11; Brockhoff, Klaus (1999). *Forschung und Entwicklung: Planung und Kontrolle* (5th ed.). München: Oldenbourg Verlag.

18 See: Brockhoff (1992) in Hauschildt, Jürgen (2004) *Innovationsmanagement*. p.8

19 Cf.: Brockhoff, Klaus (1999). *Forschung und Entwicklung: Planung und Kontrolle*, p. 37

20 See: Rogers (1983) p. 11. in Hauschildt, Jürgen (2004) *Innovationsmanagement*, p. 7

21 Cf.: Schneider, Markus (1999). *Innovation von Dienstleistungen: Organisation von Innovationsprozessen in Universalbanken*, p.7-8; Lange, John, H.(1994).

2.3.1.1. Subjective dimension

According to Rogers definition of innovation the key question in this context is: For whom is it new? The qualitative difference of an innovation cannot be measured objectively however more subjectively. Therefore, a point of reference is required for instance the company itself, the branch or the national economy.²² The most important criterion of this approach is the change in the individual perception and not the change of products or in technological²³ processes. An innovation can be new for the buyers, if there is perception of significantly new benefit in utilization or new for the producers, if there is first or early use of a perceived significantly new technology in related or the same branch.²⁴

2.3.1.2. Content dimension

In this context the core question is: What is new? In literature are different kinds of categories of innovation. Mutual consent exists according to the formative feature of newness; indeed, divergent opinions exist about types and degrees.²⁵ For this reason this paperwork divides three different types, social-, process-, and product innovation. All types belong to the superior term of managerial innovation while process and product innovation are closely related to technical innovation.²⁶ Besides this division, across all those different types there is a difference referring to the degree of newness. This continuum leads through modification which means just an incremental change over variation and

at least to diversification which can imply a radical switch or finally can end in a basic innovation like the steam engine machine.²⁷

2.3.1.2.1. Types of innovation

Frequently innovations are classified according to the object dividing them in product -, process -, and social innovation. A common explanation of Product innovations is that a new function or feature on a product or a product for a new function is provided to the customer. Process innovations are significant new or improved technologies or methods by combining input factors in a new way with the intention of providing higher quality or produce more cost efficiently. Social – or organisational innovations are improvements in the human domain of a company for example in the hierarchy or in relationships between employees. The aim is an increase of performance and motivation.²⁸

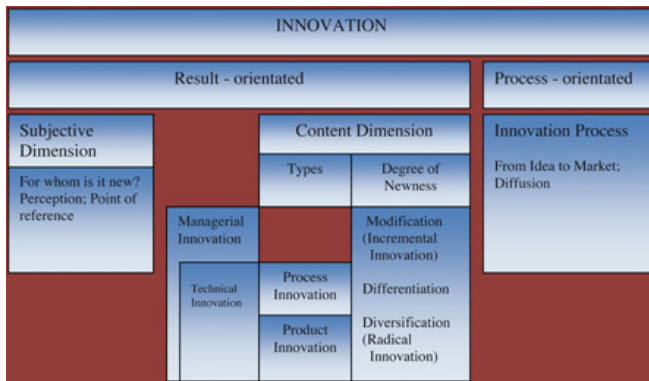
These three types can also be classified as managerial innovation,²⁹ whereas product-and process innovations can be categorised as technological innovations.³⁰ Also to mention is that there are interrelations between those types. For instance is a social innovation necessary for other innovations because the idea – generation – ability is raised in the company. Another example is that product innovations could require process innovations which are preconditions for production.³¹

Produktinnovations – Controlling, Konzept und Instrumente für eine bereichsübergreifende Planung und Kontrolle der Innovationstätigkeit, p. 11

- 22 Cf.: Schneider, Markus (1999). Innovation von Dienstleistungen: Organisation von Innovationsprozessen in Universalbanken., p 8; Hauschildt, Jÿrgen (2004) Innovationsmanagement, p. 22-24; Brose, Peter (1982). Planung, Bewertung und Kontrolle technologischer Innovationen. Berlin: Erich Schmidt Verlag GmbH&Co., p. 9
- 23 Cf.: Hauschildt, Jÿrgen (2004) Innovationsmanagement (3ed ed.). Mÿnchen: Verlag Franz Vahlen GmbH, p. 22
- 24 Cf.: Gobeli, David H., Brown, D.J. (1987). Analyzing Product Innovations. p. 25
- 25 Cf.: Hauschildt, Jÿrgen (2004) Innovationsmanagement, p. 14; Schneider, Markus (1999). Innovation von Dienstleistungen: Organisation von Innovationsprozessen in Universalbanken, p. 11; Bergmann, Gustav (2000). Kompakt – Training Innovation, p. 18
- 26 Cf.: Thom, Norbert (1980). Grundlagen des betrieblichen Innovationsmanagement (2nd ed.). Kÿnigstein/Ts.: Peter Hanstein Verlag GmbH, p.20; Hauschildt, Jÿrgen (2004) Innovationsmanagement, p. 17

- 27 Cf.: Thom, Norbert (1980). Grundlagen des betrieblichen Innovationsmanagement, p.39; Lange, John, H.(1994). Produktinnovations -Controlling, Konzept und Instrumente fÿr eine bereichsÿbergreifende Planung und Kontrolle der Innovationstÿtigkeit, p. 141; Brose, Peter (1982). Planung, Bewertung und Kontrolle technologischer Innovationen, p. 29
- 28 Cf.: Schneider, Markus (1999). Innovation von Dienstleistungen: Organisation von Innovationsprozessen in Universalbanken, p. 9 -10 ; Hauschildt, Jÿrgen (2004) Innovationsmanagement, p. 11 ff.; Lange, John, H. (1994). Produktinnovations -Controlling, Konzept und Instrumente fÿr eine bereichsÿbergreifende Planung und Kontrolle der Innovationstÿtigkeit, p.
- 29 Cf.: Thom, Norbert (1980). Grundlagen des betrieblichen Innovationsmanagement, p. 20
- 30 Cf.: Hauschildt, Jÿrgen (2004) Innovationsmanagement, p. 13
- 31 Cf.: Thom, Norbert (1980). Grundlagen des betrieblichen Innovationsmanagement, p. 38

Figure 2: Innovation overview³²



2.3.1.2.1. Degree of newness

In that not all innovations have the same degree of novelty. Generally there is a spectrum beginning with incremental innovations and ending with radical innovations or even basic innovation.³³ Again a reference point of view is needed. That could be the company itself and/or the customers or the whole branch or market.³⁴ Radical (or basic) innovations are completely new methods or technologies contrary to existing ones opening new ways of thinking.³⁵ Incremental innovations are further developments of already existing products and methods. From the companies point of view those innovations could be classified in Diversification (horizontal, vertical, lateral) Differentiation and Modification.³⁶ To categorise a new product or service in a special type of innovation degree (for instance the distinction if a new product is to assign to differentiation or modification) becomes difficult because there is no measurement method for the degree of newness. The current practice is an ordinal scaling referring to the level of newness. According to this, products, technologies or methods are not only “new” or “old”.³⁷ In consequence the degree of novelty has an

32 own work according to Schneider, Markus (1999). Innovation von Dienstleistungen: Organisation von Innovationsprozessen in Universalbanken

33 Cf. Mensch, Gerhard (1975). Das technologische Patt. Frankfurt/Main: Umschau Verlag Breidenstein KG

34 Cf. Gerpott Thorsten J. (1999) Strategisches Technologie-und Innovationsmanagement: Eine konzentrierte Einföhrung. Stuttgart: SchŠffer – Poeschel P. 54 -55

35 Cf. Mensch, Gerhard. (1975). Das technologische Patt. p.54-55

36 Cf. Lange, John, H. (1994). Produktinnovations -Controlling, Konzept und Instrumente fÖr eine bereichsÖbergreifende Planung und Kontrolle der InnovationstŠtigkeit. p. 15

37 Cf. Gerpott, Torsten, J. (1999). Strategisches Technologie-und Innovationsmanagement: Eine konzentrierte Einföhrung, p. 43 -44

essential impact on the decision making process. Those decisions are mostly future orientated and take into account a lot of risks because they are based on a lack of qualitative and quantitative information.³⁸ Main risks are such as economic risks like turnover, amortisation, profit and technical realisation risks. There is a correlation between risks and chances and level of newness.³⁹

2.2.2. Process orientated – approach

This approach connects innovation with the time context and describes it as a whole process.⁴⁰ To criticise those process views it has to be mentioned that a clearly distinction of all phases is sometimes not possible in fact they interfere with each other. It is also important to have a closer look on the examined organisation for which an individual scheme is necessary. That is why that the following rough categorisation is expedient.

1. Idea generation
2. Idea acceptance
3. Idea realisation⁴¹ This paper is concentrated on the innovation process in the broader sense, although literature differentiates a narrower meaning which only includes the processes of research and development, invention and market launch.⁴²

38 Cf.: Thom, Norbert (1980). Grundlagen des betrieblichen Innovationsmanagement, p. 26

39 Cf.: Seibert, Siegfried (1998). Technisches Management: Innovationsmanagement, Projektmanagement, Qualitätsmanagement. Stuttgart; Leipzig: B.G. Teubner, p. 108; Lange, John, H. (1994). Produktinnovations -Controlling, Konzept und Instrumente fÖr eine bereichsÖbergreifende Planung und Kontrolle der InnovationstŠtigkeit, p. 16

40 Cf.: Gerpott, Torsten, J. (1999). Strategisches Technologie-und Innovationsmanagement: Eine konzentrierte Einföhrung, p. 49; Brockhoff, Klaus (1999). Forschung und Entwicklung: Planung und Kontrolle, p.38

41 Cf.: Thom, Norbert (1980). Grundlagen des betrieblichen Innovationsmanagement, p. 45/53; Lange, John, H. (1994). Produktinnovations -Controlling, Konzept und Instrumente fÖr eine bereichsÖbergreifende Planung und Kontrolle der InnovationstŠtigkeit, p. 18

42 Cf.: Gerpott, Torsten, J. (1999). Strategisches Technologie-und Innovationsmanagement: Eine konzentrierte Einföhrung, p. 49; Schneider, Markus (1999). Innovation von Dienstleistungen: Organisation von Innovationsprozessen in Universalbanken, p. 12

Figure 3: spectrum of degree of newness (according to Mensch / Lange)

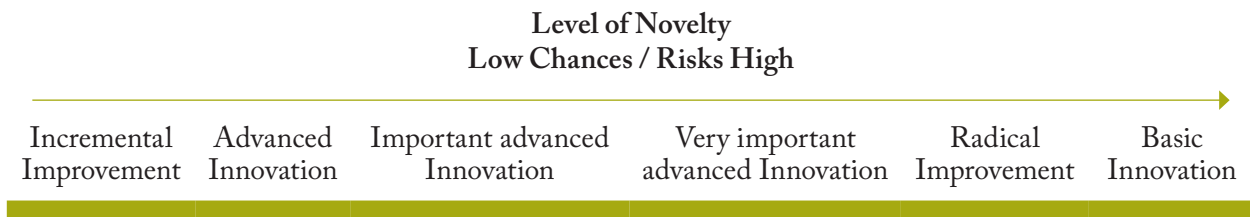
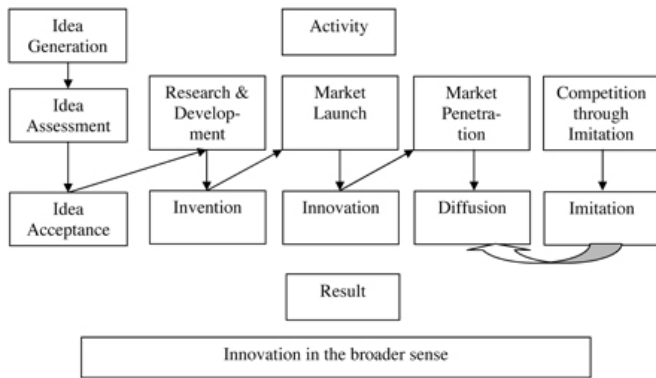


Figure 4: Innovation Process in the broader meaning (according to Brockhoff)



In the first step ideas are compiled. Therefore, the inspiration can result out of a “Demand pull” in which the ideas come from the user or consumer of the product mostly happening in coherence with incremental innovations⁴³ or from the members of the innovative organisation by using creative techniques methodically such as brainstorming morphological box or visual confrontation (worldwide there are more than 50 techniques used) and ranging the results after a certain priority.⁴⁴ Another possibility is that ideas results out of resources or scientific cognitions, so called “Technology Pushes”.⁴⁵ The next stage is to evaluate and select ideas; therefore Geschka and Laudel developed a 4 step model. At first ideas which do not fulfil chosen knockout criteria will be refused.

Secondly another screening is made. The third step is a utility value analysis. The last one is a decision which ideas kept observed.⁴⁶ After a concept is elected the data is going through the research and development department where information and facts out of an idea are accurate studied and transformed in first constructions or prototypes. The result is then an invention. The next task is to push these inventions into the market. Therefore, marketing activities must be engaged such as selecting target groups, giving a name to and advertise the product and much more.⁴⁷ High investments are necessary whereas turnover is rather low.⁴⁸

2.3. Services definition and approaches

A rapid development and growing economic relevance of services in the last decades led many authors to attend to this subject and point out different approaches and criteria of services. In literature of economy basically three different classifications can be divided:

1. Enumerative Approach Compendiums of activities which can be comprehend as services. For example it can be found in the division of economic branches where all business types are listed and those with character of services can be identified.
2. Negative Approach This definition refers as a residual to the classical sectors in economy. It means that all activities, which are not

43 Cf.: Seibert, Siegfried (1998). Technisches Management: Innovationsmanagement, Projektmanagement, Qualitätsmanagement, p.111/112

44 Cf.: Geschka, H., Laudel, G., (1992). Die Konzeptionsphase von Informationsprojekten – zwischen Intuition und Systematik. In Gemünden/Pleschak (Eds.), Innovationsmanagement und Wettbewerbsfähigkeit. Wiesbaden: Betriebswirtschaftlicher Verlag Dr. Th. Gabler GmbH, p. 58-61

45 Cf.: Seibert, Siegfried (1998). Technisches Management: Innovationsmanagement, Projektmanagement, Qualitätsmanagement, p.111

46 Cf.: Geschka, H., Laudel, G., (1992). Die Konzeptionsphase von Informationsprojekten – zwischen Intuition und Systematik. In Gemünden/Pleschak (Eds.), Innovationsmanagement und Wettbewerbsfähigkeit, p. 63-64

47 Cf.: Hauschildt, Jürgen (2004) Innovationsmanagement, p. 25

48 Cf.: Seibert, Siegfried (1998). Technisches Management: Innovationsmanagement, Projektmanagement, Qualitätsmanagement, p. 116

included neither whether in the primary sector (forestry and agriculture) nor to secondary sector (industrial sector), belong to services.

3. Approach according to constitutive features
In this definition characteristics of services will be determined and identified.

For a better understanding of those features services can be divided in three different phases. Phase of services of potential. Phase of service of process. Phase of service of result.⁴⁹ Referring to that, a general definition of services is following: "Services are independent, marketable performances which are connected with provision (for example insurance activity) and / or commitment of service capability (for instance hairdresser). This is dedicated to the orientation of potential. Internal factors such as, offices, personal, equipment and external factors (which cannot be influenced by the service provider) will be combined in the frame of the creation process. The factor combination of the provider of services is constituted with the target to gain a raise of utilisation effect. This is result orientated and can be dedicated to the external factor (for instance client) or to their object (for example car of the client).⁵⁰

2.3.1. Features of services:

Capability of the service provider
Integration of the external factor
Intangibility of the result

- Non-transportability of services
- Non-suitability for storages of services
- Simultaneity of production and consumption
- Heterogeneity of services

2.3.1.1. Capability of the service provider

For the creation of a service it is been required a special ability of the provider. It depends on the kind of service but even can be diverge within the same. In opposite to creation of industrial goods frequently the abilities have immaterial character

49 Cf.: Bruhn, M., Meffert, H. (2006). Dienstleistungsmarketing (5th ed.). Wiesbaden: Betriebswirtschaftlicher Verlag Dr. Th. Gabler/ GWV Fachverlage GmbH, p.29-32; Bruhn, M., Stauss, B. (2004). Forum Dienstleistungsmanagement; Dienstleistungsinnovationen, p. 51

50 Cf.: Bruhn, M., Meffert, H. (2006). Dienstleistungsmarketing, p. 33;

such as qualification. Customers have partly direct contact with competency of the offered service. This leads to a difficult evaluation and makes it opaque for the clients.⁵¹

2.3.1.2. Integration of the external factor

Contrary to the classical theory of production, services cannot be created just as a combination of production factors. Objects of the control of the customers (for instance assets for a financial investment) or the client himself are needed and make it significantly different. For the service provider this has several consequences, first the impact on external factors is less than on internal, second not just the provider has influence on the creation of service process but the customer as well and finally while that process opportunity costs arise for the clients. Those aspects have to be taken into account across all different branches which deal with services.⁵²

2.3.1.3. Intangibility of the result

There are controversial discussions in literature whether services are always intangible or not because a service (for example consulting for an investment strategy) can result in valorisation for the client and this can be tangible (money). However the decision is based on the service of consulting and this contains undoubtedly all characters of intangibility. Two more features derive from intangibility. First services cannot be transported⁵³ and second services cannot be produced for store.

2.3.1.4. Simultaneity of production and consumption

This aspect is self-explanatory and is closely related to the integration of the external factor. Simultaneity

51 Cf.: Bruhn, M., Meffert, H. (2006). Dienstleistungsmarketing, p. 41 - 42

52 Cf.: Bruhn, M., Meffert, H. (2006). Dienstleistungsmarketing, p. 43 - 46; Bruhn, M., Stauss, B. (2004). Forum Dienstleistungsmanagement; Dienstleistungsinnovationen. Wiesbaden: Betriebswirtschaftlicher Verlag Dr. Th. Gabler/ GWV Fachverlage GmbH, p. 9 - 13; Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente (3ed rev. Ed.). Wiesbaden: Betriebswirtschaftlicher Verlag Dr. Th. Gabler GmbH/GWV Fachverlage GmbH, p. 8 -9

53 Cf.: Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 7; Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p. 46; Bruhn, M., Stauss, B. (2004). Forum Dienstleistungsmanagement; Dienstleistungsinnovationen, p. 9

means that place of production and consumption is the same.

2.3.1.5. *Heterogeneity of services*

Once more this point could be subdivided to the integration of the external factor but this work will give a special attention to that to point out the difference between industrial mass production and the individual aspect in services. Additionally to that it is to mention that different results within the same service (for example hairdresser) are not compulsory indicators for good or bad quality.⁵⁴

2.3.2. *Services in Financial Institutions*

The specific relevance of services in developed economies is already point out since the middle of the last century. FourastiŽ is talking about the “March to service society”. With a look to table no.1 this can be observed objectively. Nowadays the third sector is involved in more than the half of gross value added in the entire economy in industrial countries and employers almost two third of employees. Comparable with some other branches in banking sector took place a change in the interpretation of its performances. Just since several years the strategy of bank managers is focused on needs and requirements of their clients.⁵⁵ “Financial Services” as a term was point out in the United States in 1970’s and was deeply influenced by the Anglo-Saxon area, before it was it was spread to other parts in the world with important financial sector. In this definition it is included retirements provisions, credit financing, monetary transactions, cash management and hedging risk. Instruments of Financial Planning with regard to an integrated consultancy of the client and using cross selling potentials (see chapter 2.3.2.2) become more and more indispensable for banks to cover its cost and gain profit margin.

Table 1: employers quote according to economic sectors⁵⁶
 Relevance of services according to the number of employers and gross value added

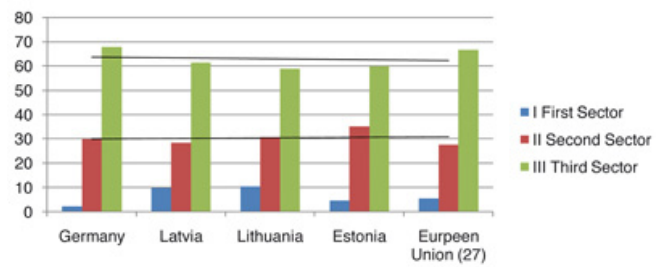
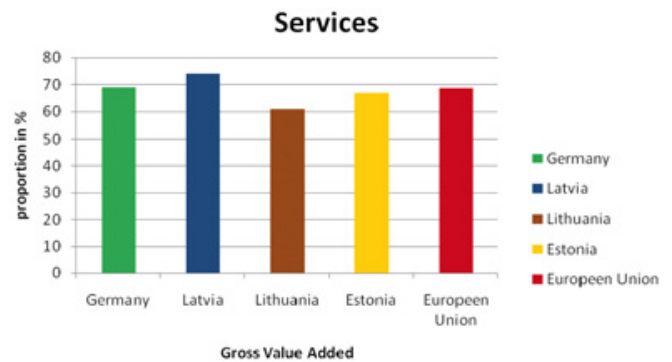


Table 2: proportion of services of gross value added⁵⁷



2.3.2.1. *Idea and relevance of service-orientation*

The growing competition and therefore raising pressure are valid for banks as well. It is faced with internationalisation and global markets, sustainable changes in the demographical development, demander become more and more heterogeneous and finally as a special feature in this field banks have to deal and compete with rivals which do not even operate in the same branch but which provide additional to its product range financial services (insurances, leasing business). Trends goes to polarisation of products (differentiation versus unity), to reduction of product life-cycles and finally to significant change in information and communication technologies. To guarantee satisfaction and loyalty of customers and ultimately to gain new customers it is been required urgently to emphasis competitive advantages like service

54 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p. 48

55 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.25; KÝhlmann, K., KŠšer – Pawelka, G., Wengert, H., Kurtenbach, W. (2002). Marketing fÝr Finanzdienstleistungen, Mit Besonderheiten fÝr Banken, Versicherungen, Bausparkassen und Investmentfonds. Frankfurt/Main: Verlag Fritz Knapp GmbH, p. 9-10

56 Cf.: Wirtschaftskammern Österreich (2008). Beschäftigungsstruktur, Erwerbstätige nach Sektoren, Stand: 2007. <http://www.wko.at/statistik/eu/europa-beschaefigungsstruktur.pdf>

57 Cf.: Brasche, Ulrich (2008). Europäische Integration (2ed rev. Ed.). MÝnchen: Oldenbourg Wissenschaftsverlag GmbH, p. 94

quality⁵⁸ and a service oriented approach with the customer in the main focus.⁵⁹ Moreover banks are situated in an area of conflicts which is reflected and documented in the Stakeholder Approach (figure no.5)

Customer: Force by expectation During the last decades the market for financial services has changed from Supply – to Demand Market. That means that clients have the possibility to compare those services very carefully out of wide range of financial service providers caused by internationalisation. The asymmetric distribution and lag of information in this sector is compensated by the customer and the position of negotiation has increased dramatically. As a result clients can define and articulate their requirements very precisely.

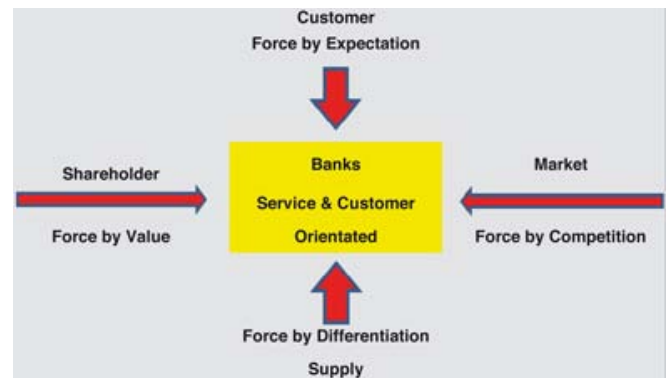
Market: Force by competition Banking institutions are confronted with pressure from two sides. On the hand with competition forced by internationalisation and this involves also international needs of customers and on the other hand the growing sector of “Non and Near Banks”⁶⁰

Shareholder: Force by Value In order to the shareholder value principle bank managers always have to be aware of financial key data such like earnings per share, return on investment, efficiency and profitability in general. In combination with those points mentioned before it is a main task of management to avoid target conflicts.

Supply: Force by differentiation The performances of financial service providers

become more and more homogeneous and according to international supply and technological progress (internet: • e-banking) customers are flexible like never before. This last point which is closely related to the overall topic of this paperwork should include pressure but also chances. To point out unique selling propositions, build up competitive edges and distinguish from competitors banks are permanently and the search for innovation in the sense of value added services.⁶¹

Figure 5: Stakeholder Approach⁶²



2.3.2.2. Creation, development and change of performance program

The performance program of a bank plays a major role in the decision – making process of buyers. Classical spectrum of performance policy is variation, differentiation, diversification, service, branding, elimination and innovation. It is the challenge of the management to find the perfect combination and adopt that to its strategy. Besides it affects the cross-buying behaviour by generating synergy effects for customers for instance by providing insurance products. Furthermore banks also consider synergy effects for themselves by developing its performance program, for example the more efficient utilisation of employee’s know-how. An intensively impact of development of the performance program is the range of the program. Advantages of a wide program are: the diversification of risks on different service offers;

58 See: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.84 “Quality is the collectivity of features of one unit according to its qualification, determined and assumed requirements to fulfill. Therefore quality describes the realised character of a unit with reference to its quality demand.

59 Cf.: Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 1-5; Bruhn, M., Stauss, B. (2004). Forum s; Dienstleistungsinnovationen, p. 29; KÝhlmann, K., KŠšer – Pawelka, G., Wengert, H., Kurtenbach, W. (2002). Marketing fÝr Finanzdienstleistungen, p.3-5

60 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken p. 30; for example: Full integrated internal credit agencies for leasing in car manufacturing, insurance agencies

61 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.28-32

62 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p. 28

the realisation of cost synergies by using the time of consultants more efficient; gaining crossselling potentials;⁶³ the establishing of changing barriers for customers by providing a wide range of services in order to keep the customer in house and not let him go verifying better offers in other banks; the improvement of the bank-customer relationship. Disadvantages of a wide range of services are: a higher complexity of organisation, for instance the request of employees according the knowledge of products; the negative image transfer occurring to problems in one demanded service; the adulteration of the business mission. There are several instruments to change the performance program, depending on the phase of the service-(product) lifecycle. Those are service innovation; service modification and service elimination (see chapter no. 2.3.1.2.1).⁶⁴ Particularly service innovations can build up in the customers mind an image as high-performance, future orientated provider.⁶⁵ The classification and organisation has to be adapted to services but in general it is similar to product innovations. One big difference exists in the innovation process (see chapter 2.2.2) especially in the phase where inventions should be tested. There are no prototypes possible for a new service idea; in fact so called service blueprinting Real-life market research is used. In a service blueprint the service idea is well structured and can be used for customer surveys asking them for improvement suggestions. Blueprints can also be internally used for cost analysis. The Real-life market research is applied in the phase of generating ideas asking potential customers for their needs and ideas.⁶⁶

2.3.2.3. Psychological effects of services in banks

In literature are discussed different psychological effects of service management in banks and partly there is a cohesion partly there is an overlap. Cause of the fact that banks deal with the savings, money and assets in general this is a very sensitive branch and will be observed and evaluated very accurately. Reliability and trustworthiness are fundamental elements in the communication policy of financial institutions. Moreover the perceptions of the customers according to the performance of the banks are essential and have deep impact in their selection procedure. The main psychological effects are:

- Perceived service quality
- Perceived value
- Perceived relation quality⁶⁷
- Customer satisfaction

2.3.2.3.1. Perceived service quality

Through comparing the expectation of services and actually received services by the customer, perceived service quality is generated. The smaller the gap between expectation and reality the better the perceived quality and in best case the reality exceeds the expectation. Attention should be paid that clients rarely asses the service as a whole. It is more likely that they judge it as an aggregation of different single features. Frequently it can be summarised in so called quality dimensions like: individuality, credibility, communication, discretion, reliability, competency, flexibility, topicality, and environment (no priority).⁶⁸

2.3.2.3.2. Perceived Value

Additional to the received service the customers include what efforts they have to enrage themselves to utilise the service. Thus there is a confrontation between utilisation and costs (see 2.3.2.2 Integration of the external factor). Possible costs are such as acquisition-, transport-, installation- and maintenance or quality deficits costs, however

63 Cf.: Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 137 : Supplemental intersectional financial services offered by one provider

64 Cf.: Bruhn, M., Stauss, B. (2004). Forum Dienstleistungsmanagement; Dienstleistungsinnovationen, p. 79-81; Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 136 – 138; K hlmann, K., K ser – Pawelka, G., Wengert, H., Kurtenbach, W. (2002). Marketing f r Finanzdienstleistungen, p. 161-162

65 Cf.: K hlmann, K., K ser – Pawelka, G., Wengert, H., Kurtenbach, W. (2002). Marketing f r Finanzdienstleistungen, p.163

66 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.203-206; Bruhn, M., Stauss, B. (2004). Forum Dienstleistungsmanagement; Dienstleistungsinnovationen, p. 177 -181

67 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.73

68 Cf.: Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 29-36; Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.73

basically it is the price for the service. Thus it can be interpreted as price-utilisation ratio.⁶⁹

2.3.2.3.3. Perceived relation quality

In contrast to the perceived value and perceived service quality, refers the perceived relation quality to an evaluation of the correlation between client and provider from the customer's point of view. It is defined as cross boarding transaction estimation of the capability of a company to fulfil the requirements of the customers in the past and future. Those two dimensions are represented by trustfulness with regard to future orientation and by familiarity with regard to the past.

2.3.2.3.4. Customer satisfaction

To gain customer satisfaction in the customers mind is one of the crucial efforts of the strategy of managing commercial organisations because it can ensure loyalty and therefore profit for the company. Marketing departments especially have to deal with that issue. It can be seen as the result of the three perceived dimensions mentioned before. The more positive assessment of the three dimensions by the customer is the more satisfaction can be realised.⁷¹

2.3.2.4. Baltic States

In the course of the European enhancement on the first of May in 2004 ten new countries basically located in the eastern part of Europe became full membership of the union. 13 years after the collapse of the Soviet Union and 7 and half year after the beginning of accession negotiations (17 of December 1997) the three Baltic States: Estonia, Latvia and Lithuania joined the EU-25 club. According to the "acquis communautaire" those countries had to adopt all ordinances, regulations and guidelines. Since its access the Baltic States had to accept and to implement the four fundamental freedoms of the single market: freedom of mobility, freedom of movement of goods, freedom of capital and

freedom of service.⁷² The last two market freedoms are closely related to financial organisations because this business is interdisciplinary and is influenced by a combination of freedom of capital and service. Although the gross domestic product in the Baltic's is just the half of the European average (in 2004) there can be registered a significant increase over the last years. For example Latvia had a gross domestic product growth of 11.9% and analyses predict similar figures for the next years as well. This sustainable economic development and positive macroeconomic indicators over the recent years is due to prospering external trade in traditional sectors like wood-, textile-, electronic and engineering industry and primarily caused by a dynamic advanced financial sector. Thus this paperwork is dedicated in the research part on financial institutions in the Baltic States.⁷³

3. Research part

Analysis is based on interviews of commercial bank employees who are the most competent in innovation questions in their bank (board of the bank, presidents, and innovation center managers). Most of the banks interviewed have got parent Banks (financial groups) and filial branches in the whole Europe and only some of them were local or with branches out of Europe. Results showed that banks aren't working in the way how people imagine it. Different opinions and conception of the innovation as a value equals to the number of commercial banks totally interviewed by face to face contact:

- *In Estonia*

1. "Parex bank" (branches in 6 European countries and 4 other) President Eižens Slava

- *In Latvia:*

"Latvijas Krājbanka" (local) Former President Andris Nātriņš

"Aizkraukles banka" (local) Bank Product Creation Center Manager Sergejs Mazurs

69 Cf.: Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 31; Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.73

70 Cf.: Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken p. 74 - 75; Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 36-38

71 Cf.: Haller, Sabine (2005). Dienstleistungsmanagement, Grundlagen-Konzepte-Instrumente, p. 39 -43; Bruhn, M., Georgi, D. (2006). Dienstleistungsmanagement in Banken, p.75

72 Cf.: Brasche, Ulrich (2008). Europäische Integration, p. 49/ 271 -277

73 Cf.: ...IR - Informationsdienste GmbH, http://euost.bmwa.gv.at/pdf/Li_Lettland.pdf, http://euost.bmwa.gv.at/pdf/Li_Litauen.pdf

“Hipotēku banka” (local) President Inesis Feiferis

“Rietumu banka” (4 in Europe, 4 other) Vice-President Inga Šīna

“Hansabanka” (9 in Europe, 5 other) Board of the bank Toms Siliņš

“Seb Unibank” (15 in Europe, 5 other) Head of Product & Technology Development department Jānis Pakšis

“D'n B Nord” (5 in Europe) President of Leasing Hugo Pāvuls

Asked questions to the banks

So further banks will be divided into the **LOCALS** (banks with relatively less capital, experience, backup and possibilities than financial groups) and in the **Financial Groups** (banks from financial groups as their branch – big experience, capital, influence).

Banks were asked by 12 questions. Each of them has got several answers with concentrated bank opinions.

3.1. What do you associate with “innovation”?

There were several explanations of innovation from bank employees.

Local banks:

- introducing of something new and positive, new features and solutions for already known and used things
- Introduction, creation of something that has never been before
- everything new what's happening

Financial Groups:

- not only a new product creation but also finding new values and niches that no one have thought before
- new product, technology and working system creation
- a discovery that have been made in targeting strategy that afterwards transformed into marketable and sellable product, improvement in processes

3.2. Is “innovation” defined as a value in your bank?

7 out of 8 banks confirmed that they do. One that denied was a **Financial Group**. Mostly banks noticed that there's not so much a word “Innovation” figuring in documents as their defined values that include innovation meaning as itself.

3.3. Does your bank pursuit a special policy with regard to “innovations”?

Nobody does have a special innovational policy but everyone as one said that there are other things and way of working that involves it during bank processes that lead to a new product and service creation.

Examples:

Inside activity and processes:

Employee selection and development: No innovations – just career center, mentors to each new employee

Employee and their skill assessment: They're valued each period (3 months, half or one year). Valuation is been done by seeing work progress effectiveness and done things. Sometimes there are “Ghost clients” (control clients).

Employee motivation and remuneration: Employees are really motivated to work harder and with better attitude (love to do the work, more enthusiastic). They've been offered fixed wages + bonuses you can get from for example how much of the bank products you have sold, effectiveness of the job.

Inside process control and effectiveness: Kaizen method: monitoring of every bank move. All processes are strongly controlled.

Planning processes (operative, strategic): Sometimes processes are innovative by themselves -using strategies that may show good results for a bank in future.

Finance and risk management: Classic bank stuff. For Financial Groups there are really impressive research centers for finance and risk managing.

Bank products:

Product launch

LOCALS are saying that each of them shouldn't compete in the "Red and bloody sea" but go into their own niches, using "Blue ocean strategy". There were 2 different opinions of **Financial Groups**:

- 1) mentioned that if there is need and if they see a market in some new product – they invite it
- 2) They fully agree with 1) but also think that they have to use blue ocean strategy, creating new niches.

But since **Financial Groups** have got the most power of market, then parallel new niches they're trying to offer new products in the classic niches. The market is great – the main thing is to find where each bank is strong at and then focus on it! Better is to do one thing and do it really good than several and with less effectiveness.

Current product improvement

Local and big banks are admitting that it's important to think about new features if they want to make it innovative. With those features it's possible to make product look and act differently – that's why it's important to think about it all the time. "Kaizen" as the "Never-ending development" is used all the time in all banking processes starting with copy paper using and ending with more effectively credit loan strategies. Using kaizen is really innovative way of a work organizing that's one of the most important things in such organizations as banks. "You have to go with the time".

3.4. Is there a special person or department that is responsible for innovation management?

There was only one financial Group that have got innovational centre consisting of 3 employees. Their task is creation and evaluation of an innovative idea realization and control.

3.5. Can you name 3 successful innovations and one not so successful in your bank?

For financial Groups it wasn't a problem to answer immediately. LOCALS were more thinking about "is that an innovation that they've got?" because

sometimes they admit that they create a bicycle for themselves from zero – and they may call it as innovation for only themselves (comparing to the activity of other banks and of Europe and all-around the world those are not).

**Successful
Local banks:**

- Way of thinking, bank philosophy as innovation: in problem solution and new product creation use both brain hemispheres (abstract and linear thinking). Creation of teams in which people of analytical strength are mixed together with creative and innovative thinking ones. Both groups together showed better results than working separately. And it's very important and a never-ending innovation – to organize a perfect teamwork for united target consummation.
- choosing their own niche in which they have core competences. Also trying to offer specific products to specific costumers (pensioners, companies etc)

Financial Groups:

- "OPEN" project – special program and opportunities offered for youth. Offering to buy good laptops with low cost, lease a car with better terms, take a loan, sponsoring festivals, concerts and all kind of benefits. Attaching youth for one of their offered activities, he becomes a bank client. With this program they want him to stay loyal in long term by offering better terms for bank products all the time. Innovation is so successful that a bank have even became the biggest laptop retailer and there's even more of youth wanting to take a part in "OPEN" offered product using and their convenience what's specially made for them.
- Closing branch offices and choosing to focus on project investment and starting to work only with VIP clients showed economical effects because of finding new and innovative way how bank could successfully work by not fighting for influence with other competitors. New niche founded that no one focused on before.
- MAXI account (all in one) – functions of payment by card, personal and deposit account. Very successful and demanded product.

- SEBWAY – special way of leading innovations and all processes in the bank by making work more efficient for employees, whole bank activity and better service for costumers.

Unsuccessful

All banks except one Big said that they have those. They didn't mention them because they managed to stop those just in time by indicating problems. But each of the banks admits that it was worth trying even if it showed bad economical effect. Gained experience let's to know better what do the costumer wants further and what he dislikes and if the society is ready for some kind of innovations.

3.6. How do you generate ideas to find innovations?

Nowadays it is very important to get as much as possible ideas for innovations. There are several ways how to generate them and we have divided it in four parts:

- a) Competitors & benchmarking b) Market research
c) Client inhabitant surveys d) Employees.

a) Competitors & benchmarking.

In all banks which representatives were interviewed, they declared that they are using this method. Bank interests are -to develop and stay in their own niche. And if they see an opportunity that successfully works in other bank, they try to adopt and differentiate it for their own needs. Really important is not to copy but try to adopt loaned innovations because those work differently for different markets, countries, culture and citizens living there. New innovations can be created by seeing a new market that competitors are interested in. The main thing is to figure out better features than others can do. And more better – to figure it out first!

b) Market research

This is one of the main sources for innovations for all banks. There are two ways how to get the research.

- Made by own bank. In banks there are special departments which make the research, although in small banks. Sometimes this function gets covered over several departments.
- Made by special researching center. Every year researching centers make surveys and researches for all markets which banks can buy from them.

c) Client and inhabitant surveys

Regular polls and ideas of improvements from client complaints are important. That's why all banks especially local makes these surveys. Now the surveys are mostly made in internet as questionnaires. Locals mentioned the importance of a private link between bank and customer that can be made in this way. Special approach to every client is very important because in this way bank can get more specific information about them and their needs.

d) Employees

The brightest ideas can always come from employees, because they know the actual situation in bank and always knows what isn't working properly and what has to be improved or created for their own and customer convenience. 6 banks out of 8 are using "Idea bank" – the way how employees can express their ideas of improvement and creation of a new bank products. Those two were the Financial Groups that believe if someone had a great idea he would find a way how to express it, by talking to managers without special idea-registering method.

When banks were asked with a question -are there any methods that motivate your employees to create innovations, mostly there were three different answers:

- 1 All banks especially LOCALS admitted that there are possible additional money and percentage of money for realized idea.
- 2 A possibility to climb a ladder of success is one of the main methods how to motivate employees. Although mentioned in all Banks.
- 3 All the Financial Groups and one from LOCALS said that maybe money isn't as important as the honor for a person in

front of all other eyes that he have done a really great job (applause effect). In one of the big banks there is great innovation how to motivate employees. They made a sport complex in their central building with basketball hall, swimming pool and sauna for employees after the work for free -so they could lower the stress and communicate with each other.

3.7. How do you think -have innovations shown any economical effects?

All banks declared that their successful innovations have shown economical effects. Financial Groups mentioned that sometimes there's no economical effect on some innovations what they believe will show up later (for example: innovations that ask for huge money investment in service quality)

Rarely but sometimes there are innovations that are not successful. But after the evaluation of innovation first results – if it is and seems going to be unsuccessful further it must be stopped in reason to not make more loss and to make conclusions.

3.8. How are innovation and its economical effects measured and evaluated? (financial management ratios)

For all of banks there were 4 aspects how economical effects were measured:

Economical calculations

This is one of the most important aspects of economical effect. There are calculations made to see how the innovation gives a profit or loss for a bank.

Market share

It is important to know how big the market share is after bank attained created innovation.

Intensity of products utilization

Although relevant information is to know how many products have been utilized (demand).

Time & recourses

In evaluation important is time and recourses used for particular project or job made. Also evaluating

alternatives is important – then it shows cost-benefit.

3.9. Can you mention any innovations in cooperation between banks or suppliers (databases) ?

Three types of innovation in cooperation were mentioned:

- 1 One card servings system – now we are used to it but when it was made it was a big innovation in this particular market. One card serving system means that all cash dispensers can accept all cards.
- 2 Unitary cash dispensers network – several banks cooperating made unitary network that several banks customers can use cash dispensers without committee payments.
- 3 Creating united credit register – bank united committee with all bank participation made united credit register where all banks can see their client credit history.

Financial Groups mention that they could cooperate more but only with other big banks so they could all just make win-win situations by gaining new profits. LOCALS although said that all banks have to cooperate together more. Examples for further cooperation can be united formats for e-signatures, wap or mobile bank. Making and creating solutions together it could be a win-win situation also because of earning profits that other nonbank companies can do.

3.10. Is there cooperation between financial group branches?

No cooperation for LOCALS possible.

Most of innovations and ideas Financial Groups take from Parents Company bank and what they do is trying to adopt those innovations to a local markets. If one of the branches makes innovation – then it's shared in their entire financial group if needed. That's why big banks make seminars and conferences for analyzing the situation in the market and looking for new ideas how to attract new costumers.

3.11. How do you think -what are the indications of an innovational commercial bank at nowadays?

All banks find themselves innovative because they're adapting to today's world trends and customer needs – if hard things are made in easy, effective and understandable way. Banks are moving all handwritten paperwork to the digital databases so there could be faster access to information and clients didn't have to fill many pages again and again. Also important is to make innovation processes as a casual thing so the customer would feel good all the time for being a bank's customer.

Local:

- Banks those are not competing with each other but trying to cooperate making a win-win solutions for client, government and banks itself
- Bank which follows and introduces everything modern and thinks about their own original improvement

Financial Groups:

- Innovation should be defined as a value and what's more important – it should be shown in action. Banks must be more than classic banks are used to be because survival in future is possible only for those banks which will manage to work in their own niches and to find new markets. Otherwise if a bank follows everything new that competitors are doing (copy of innovations but not improving or adapting them) than small banks will be bought by a stronger competitor and big banks will have only losses because of non-possibility to compete.
- Bank is independent and clients are satisfied
- Bank which provides new products, and gives profit or social benefits
- Bank which defines its niche and develops its technologies

3.12. Do you think that commercial banks altogether are innovative? Are there any differences between them in Baltic States?

LOCALS admitted that they're less innovative as big banks but they're in a way of innovation. They mention that value of innovation is very important and in future they'll try to show it in action more. Financial Groups really value innovation and its effects as they understand that it's one of the criteria of a bank success.

Local:

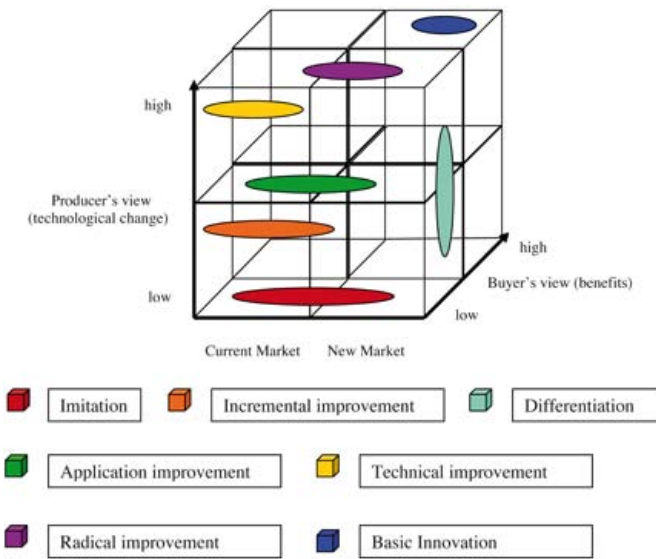
- One bank admits that comparing to the whole world Baltic state banks are not so innovative because greatest innovations are done before these banks that are introducing something new. They deny TOP 10 leading banks as the best in a country if they're valued from innovation point of view.
- Since 90's Baltic state banks are becoming more innovative and they truly are at nowadays
- Some agree that TOP 10 most successful banks means the same as TOP 10 of most innovative banks

Financial Groups:

- how innovative each bank is can be seen from TOP banks. It works as a mirror.
- most successful banks are the most innovative ones because of a biggest capital they can invest and use in innovative researches
- one big bank also thinks that comparing to the world Baltic State banks are not so innovative because of a relatively low experience

4. Conclusion

Figure 6: Product – Innovation – Market – Cube



Through the analysis of the research it comes out that innovations are important values in banks and it has a high relevance on strategic orientation. To bear up the challenges financial institution are faced with, a quickly adaption to economical changes and customers demands is been needed essentially. An enduring process of improvement with a particular view on innovations can ensure profit and sustainable success. Moreover there can be claimed a difference between financial groups and local banks. Whether the big ones pursuit with heavy investments and a considerable assets basement prefer to pursuit red ocean⁷⁴ strategy, local banks try to find niches and pursuit the blue ocean strategy.⁷⁵ The product – innovation – market – cube should give a support to estimate different kinds of product (service) improvements and innovation and finally recommends entrepreneurs to find its individual strategy. However there is still potential

74 W. Chan Kim, Mauborgne, R. (2005) Blue ocean strategy, How to create uncontested market share and Make the competition irrelevant. Boston: Harvard Business School Press: Companies try to outperform their rivals to grab a greater share of product or service demand. It is characterised by known market space and industry boundaries are defined and accepted

75 W. Chan Kim, Mauborgne, R. (2005) Blue ocean strategy, How to create uncontested market share and Make the competition irrelevant. Boston: Harvard Business School Press: A simultaneously created value for both the buyer and the company and it is characterised by the unknown market space and untainted by competition. Demand is created rather than fought over.

for innovation ability and it has to be taken into account that in this sensitive business a balance between conservative and innovative strategies has to be found.

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