

What types of innovation contribute to performance in financial services?

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Literature review (1/3)

- Innovation refers to “*the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations*” (OECD, 2005, p. 46)
- This definition suggests the delineation among product (good and service), process, marketing, and organisational innovations
- Innovation in financial services is attributed with specific features such as presence of regulation, problems with appropriability, propensity to cooperation, and incremental nature of innovation (Mention and Torkkeli, 2012)

Literature review (2/3)

- **Effects of innovation on the performance of financial services firms were addressed in several empirical studies**
- **Tufano (1989) provides an evidence of a positive impact of financial innovation on their developers in terms of a market share**
- **Those financial institutions that are more active, consistent, and diversified in innovation activity show superior financial performance (Roberts and Amit, 2003)**
- **First movers in product innovation benefit from improvement of profitability, while the ones in process innovation gain from positive profitability and efficiency effects (Abir and Chokri, 2010)**
- **Propensity to financial innovation is correlated to a decline in the cost-to-income ratio of innovators (Rossignoli and Arnaboldi, 2009)**
- **An introduction of technology-enabled innovation results in a better profitability (Ciciretti *et al.*, 2009)**
- **There seems to be an inverted U-shaped relationship between the degree of innovation novelty and financial performance (Avlonitis *et al.*, 2001)**

Literature review (3/3)

- **Our understanding of the effects of financial innovation on performance would not be thorough without accounting for the types of innovation**
- **To some extent, this has been tackled in the preceding studies (e.g. Abir and Chokri, 2010); however, the entire picture remains incomplete**
- **The role of organisational and marketing innovation in the performance of financial institutions represents a particular research interest**
- **Furthermore, until nowadays, none of the existing studies addressed this issue from a multiple cross-country perspective in a context of significant economic shock**

The research question

- This study aims at exploring the role of various types of innovation in the performance of financial services firms.
- Specifically, this paper answers the following research question:
- **What types of innovation are associated with superior performance of financial services firms in the context of financial crisis?**

Research Context and Design

- Sample**
 - 26 countries (EU Member States, EU Candidate Countries, and Norway), Cross-country analysis
- Datasets**
 - EU Community Innovation Survey (Eurostat)
 - Annual National Accounts (Eurostat)
- Sector**
 - Financial service activities, except insurance and pension funding (NACE K64; Rev. 2)
- Time frame**
 - Years 2006-2008
 - Years 2009-2010 to account for a possible time lag of the impact
- Method**
 - Bivariate correlation analysis

Results (1/2)

Variables		Net operating surplus and net mixed income, Ratio (average 2010-2009 to average 2006-2008)	Gross value added (at basic prices) - Millions of national currency, chain-linked volumes, reference year 2005 (including 'euro fixed' series for euro area countries) - Ratio
Technological innovation only (product, process, on-going or abandoned)	Pearson Correlation	0.123	0.322
	Sig. (2-tailed)	0.637	0.193
Non-technological innovation only (organisational and/or marketing innovation)	Pearson Correlation	0.536*	0.071
	Sig. (2-tailed)	0.027	0.780
Enterprises that developed service innovation	Pearson Correlation	-0.285	0.000
	Sig. (2-tailed)	0.238	0.999
Enterprises that developed process innovation by improving methods of manufacturing or producing	Pearson Correlation	0.328	0.045
	Sig. (2-tailed)	0.252	0.868
Enterprises that developed process innovation by supporting activities for processes	Pearson Correlation	-0.043	0.001
	Sig. (2-tailed)	0.864	0.996
Enterprises that developed process innovation by improving logistics, delivery or distribution methods (Lg10)	Pearson Correlation	0.253	0.223
	Sig. (2-tailed)	0.295	0.345
Enterprises that introduced organisational innovation (Lg10)	Pearson Correlation	0.212	-0.240
	Sig. (2-tailed)	0.383	0.308

Results (2/2)

Variables		Net operating surplus and net mixed income, Ratio (average 2010-2009 to average 2006-2008)	Gross value added (at basic prices) - Millions of national currency, chain-linked volumes, reference year 2005 (including 'euro fixed' series for euro area countries) - Ratio
Enterprises that introduced new business practices for organising procedures	Pearson Correlation	-0.242	-0.351
	Sig. (2-tailed)	0.367	0.183
Enterprises that introduced new methods of organising work responsibilities and decision making	Pearson Correlation	0.130	0.594**
	Sig. (2-tailed)	0.608	0.007
Enterprises that introduced new methods of organising external relations	Pearson Correlation	0.419	0.241
	Sig. (2-tailed)	0.083	0.319
Enterprises that introduced marketing innovation	Pearson Correlation	-0.028	-0.316
	Sig. (2-tailed)	0.910	0.174
Enterprises that introduced significant changes to the aesthetic design or packaging	Pearson Correlation	0.115	-0.096
	Sig. (2-tailed)	0.651	0.697
Enterprises that introduced new media or techniques for product promotion	Pearson Correlation	0.138	0.594**
	Sig. (2-tailed)	0.586	0.007
Enterprises that introduced new methods for product placement	Pearson Correlation	0.125	0.302
	Sig. (2-tailed)	0.621	0.208
Enterprises that introduced new methods of pricing goods or services	Pearson Correlation	-0.090	-0.284
	Sig. (2-tailed)	0.730	0.238

Main findings

- **Those financial services sectors characterised with a higher share of non-technological innovation (organisational and/or marketing innovation) over the period of 2006-2008 benefited from the increase in the net operating surplus and net mixed income indicator in 2009-2010**
- **Those financial services sectors attributed with a higher involvement to the introduction of new methods of organising work responsibilities and decision making showed better performance in terms of gross value added two years afterwards (2009-2010)**
- **Those financial services sectors where incumbent firms were characterised with a higher involvement to introduction of new media or techniques for product promotion benefited from an increase in the gross value added indicator in 2009-2010**

Conclusions

- **This study contributes to the domain of literature devoted to the understanding of the impacts of innovation activity on performance of financial services firms (Abir and Chokri, 2010; Ciciretti *et al.*, 2009; De Young *et al.*, 2007)**
- **Results of this study echo preceding research enquires in the aspect that higher rates of innovation activity may lead to higher financial performance (Roberts and Amit, 2003)**
- **Until nowadays, the composition of dependent and independent variables used in this study has not been tackled in the extant literature**
- **Implications of this study will be of interest mainly to policy makers. They may benefit by improving their understanding of the factors that make financial sector resilient amid a financial crisis**
- **Further studies in other national and regional contexts could advance our understanding of the phenomenon**

Thank you for your attention!

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