Chapter 80
Identifying Different Forms of Innovation in Retail Banking

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ABSTRACT
To be competitive and capture new customers, banks must develop continuous innovations that can reduce costs, enhance existing service quality, expand current service offerings, and increase market share. This article proposes a typology of different types of innovation in the retail banking sector on the basis of a case study of the leading French credit institution, Crédit Agricole. This bank does not innovate just incrementally, and radical innovations resulted from the launch of a new distribution channel, though several innovations are unrelated to new technology. This study adds to literature on innovation services by enhancing understanding of the different types of innovation. The empirical investigation further shows that the banking sector can develop process innovations, which give the bank a longer term competitive advantage. To innovate radically, the bank should anticipate the impact of its new offerings on different areas of the system.

1. INTRODUCTION
Despite growing service-related and innovation management research, researchers continue to call for further studies that can improve understanding of service innovation (Ordanini & Parasuraman, 2010). The service sector remains the “poor relative” in innovation management literature (Gallouj 2002), which concentrates instead on technical innovations (Damanpour, Walker & Avellaneda, 2009), especially in biotechnology, semiconductor, and other such industries (Baum, Calabrese & Silverman, 2000; Gilsing & Nooteboom, 2005; Roijakkers, Hagedoorn & Van Kranenburg, 2005). Yet such results rarely apply effectively to the service sector (Sundbo, 1997), because of its lack of standardization, as well as the relatively minimal investments in R&D for services, leading to an
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informal, customer-affiliated innovation process (Lusch & Nambisan, 2012). Common criteria for measuring technological innovations, such as the number of patents or R&D budgets, are not valid for services. Innovation in the service sector also is less tangible, reliant on human and relational factors rather than technology (De Jong & Vermeulen, 2003; Ettlie & Rosenthal, 2011). Furthermore, specific forms of innovation generally pertain to particular service sectors, which encourages researchers to concentrate on single-sector studies: five-star luxury hotels (Ordanini & Parasuraman, 2011), hospitals (Djellal & Gallouj, 2005), or retail networks (Cadwallader et al., 2010).

In this study, we focus on the banking sector, which represents approximately 8% of the gross domestic product (GDP) and 4% of employment in member countries of the Organization for Economic Cooperation and Development (OECD, 2008). It also has undergone significant regulatory and technological changes and faced increasing competition in recent years with the arrival of online competitors (Athanassopoulou & Johne, 2004). In this difficult context, banks have had to innovate to remain competitive, whether to lower their costs or differentiate themselves from competitors (Drew, 1994; Han et al., 1998; Reidenbach & Moak, 1986; Storey & Easingwood, 1993). Despite increasing numbers of innovations in the banking sector (OECD, 2005), our knowledge in this area remains uncertain (Athanassopoulou & Johne, 2004; De Jong & Vermeulen, 2003; Menor & Roth, 2006; Oliveira & von Hippel, 2011; Reidenbach & Moak, 1986). Authors investigating banking innovation often consider the development of new offers (De Jong & Vermeulen, 2003) or implicitly assume that banks cannot innovate beyond new technologies (Ding, Verma & Iqbal, 2007; Karmarkar, 2000; Oliveira & Von Hippel, 2011). In this sense, an effective framework for innovation in the retail banking sector is lacking.

Innovation, in the literature, mainly refers to the creation of value directed toward the customer, though it also might involve other areas, such as a bank’s organization (Oliveira & von Hippel, 2011). It also might feature several dimensions (Avlonitis, Papastathopoulou & Gounaris, 2001), including service concepts, processes (information systems or work methods), organizations (hierarchical level, structures), and external relationships (interfaces, intermediaries). We define innovation as occurring when the bank takes deliberate actions to increase its profits (De Jong & Vermeulen, 2003). With this definition, we aim to clarify the scope of innovation in banking, show how several categories of innovation apply in retail banking, and propose a typology of categories.

We begin by reviewing prior research into innovation in both banking and the general services sectors. With this information, we develop a typology for identifying innovations in the banking sector. Then we apply the proposed typology to France’s main retail bank, the Crédit Agricole, to check its relevance. It leads into our discussion of the effects of an innovation on the innovation portfolio and the innovation process. Finally, we note some implications and limitations of our research.

2. INNOVATIONS IN BANKS: PRIOR LITERATURE

Prior literature on the banking sector suffers two main limitations: It focuses on new offers (visible innovations for customers) and assumes technological progress is the only source of innovation. We offer a typology that might better explain variety in banking innovations.

2.1. Limits to Extant Current Research

According to the first research on innovation in the banking sector, banks do not always rely on innovation as a means for development. However, those that establish and formalise development programs for new products perform better than
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