Chapter 15
Innovation and Diversification Policies in the Banking Sector:
The Case of the Urban@ Program

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ABSTRACT

This chapter describes innovation and diversification policies (i + d) and analyzes the main drivers of innovation in financial institutions. In addition, recent examples of financial innovations and their effect on banking policies are discussed. Specifically, the Internet has been the key to enabling financial institutions to extend and optimize their business by improving the information and services they can offer to their customers and prospects. Due to innovations and changes, the banking sector now takes a new approach in the design of their offices ("bank branch 2.0") and Websites as a way to innovate and diversify business. This chapter explains the innovative strategies of the Urban@ program at the Caja Rural of Granada (Granada, Spain). The history and consolidation of the program, the internal institutional response, and the competition within the banking sector are described and analyzed. In general, the main strategies and achievements of this initiative are: (1) active customer listening, resulting in increased confidence and commitment from the staff; (2) use of up-sale strategies (cross-selling, reduced dropout rates, increased membership advantages), which increase both customer loyalty and customer satisfaction; and 3) a modern, more positive perception of the entity among the general public.

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1. INTRODUCTION

1.1. The Importance of Technological Innovation in the Financial Sector

Innovation is "the generation, acceptance and implementation of new ideas, processes, products or services" (Kanter, 1983: 20). From an industrial point of view, innovation is "introducing a novelty in the production process, whatever its size and origin, to achieve more efficient economic objectives" (Inche, 1998: 9). Rogers (1983: 11) adds that innovation is "an idea, practice or object that is perceived as new by an individual or other unit of adoption."

Nowadays, specific Information and Communication Technology (ICT)-based innovations are shaping a new economic scenario, characterized by rapid technological change, increased competitiveness and reduced product life cycles. Companies are discovering the great potential of ICT to improve competitiveness and profitability in business (Lafuente, 2005: 29; Fujitsu, 2009; Torrent-Sellens et al., 2010: 53; Fundación Orange, 2010: 108). The increasing use of ICT represents a major challenge to the traditional modus operandi of trade relations, directly affecting company-customer relationships. While for many years, radio, television and the telephone were the tools used to market products and services efficiently, now newer, even more efficient means of communication such as the Internet, mobile phones and interactive television have produced interesting and innovative marketing results (Chaffey, 2000: 16; Heinonen and Strandvik, 2005; Heinonen, 2006; Zaidi, 2006; Masamila et al., 2010). These communication tools simultaneously serve as self-service delivery channels such as Internet banking (Heinonen, 2006).

In this context, technological innovation refers to both actions and decisions about the market as well as to products and services that make business management easier. Sometimes two or more innovations are presented together since they have, or are perceived to have a functional relationship, by potential adopters. Because of this, the concept of "technology clusters" or innovative packages consisting of one or more closely related technology components has appeared (Rogers, 1983: 143).

In an attempt to classify the different types of innovation in business, Mellor (2007: 38-39) distinguishes three types of innovation:

- **Invention Innovation:** Is the application of an invention or discovery. This type of innovation tends to be vertical and radical. However, most organizations are based on image and product (e.g. trademark protection) rather than new or radical advances in technology (patent protection).
- **Creative Innovation:** Is used as a tool to achieve competitive advantage in the market. The initial creation of a company or its business model is a form of creativity.
- **Diversity Innovation:** Regarded as a horizontal phenomenon (agent-to-agent or peer-to-peer) and incremental, this innovation includes conversations among peers with different knowledge bases or from other environments to offer solutions to a problem without requiring a significant degree of invention and / or creativity. Such innovation can add value and service to customers without having to "reinvent the wheel."

Figure 1 represents the three types of innovation described.

The formation of partnerships or strategic alliances between companies allows a degree of innovation in production, trade, or distribution. Kanter (1983: 21) adds that innovation involves creative use of original inventions as well.

But as a general rule, the most original innovations are less likely to be distributed, since products that are similar to existing ones require a lower degree of behavioural change in order to be used.

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