

Chapter 16

Innovation and Competitiveness: An Exploratory Study on Turkish Financial Sector

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ABSTRACT

While the fostering effect of globalization continues, the traditional perspectives of corporations regarding competition lose their significance as the conventional strategies have started to give way to new approaches in the business world. Many firms have realized the fact that it is fundamentally necessary to revise their competitive strategies to maintain their sustainability. Therefore, “innovation,” one of the emerging strategies of competition, has globally become more and more dominant. However, the debate on the strategic value of innovation is still ambiguous not only in the theoretical framework but also in practice. The main purpose of this chapter is to make clear the theoretically informed definition of “innovation” and express its potential for providing competitive advantage in the financial sector. The chapter discusses some of the main scholarly sources of the issues related to the innovation strategies supported by the cases in the Turkish Banking and Insurance Industries.

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INTRODUCTION

Competition, known as a mutual struggle between different people or organizations working in a particular field to achieve the same goal, is fostered by new dynamics that lead to the change in the concept of competition. The new strategic trend in the emerging markets has become to consider the innovation strategies as a competition tool for the purpose of obtaining a sustainable competitive power in the global arena. Therefore, in order to survive in today's rapidly changing competitive environment, corporations must continuously change and renew their products and services as well as their production methods. This is only possible by adopting innovation in designing products and services as well as process dimensions throughout an organization. Since the early 1980s, the generations of innovation models have increased and begun to influence the internationalization of research and development (Krahmer and Regerr, 1999, 51). Innovation, as a unique resource, has begun to take place in business as well as in competency models. However, sustainable competitive advantage can only be accomplished by the resources that cannot be imitated or substituted. This reveals the need for managing innovation practices within an organization. In this sense, the innovation phenomenon has become a necessity not only for manufacturing but also for the service sector due to its dynamic nature. This is also important for the financial services. Banks and insurance companies are of great importance for the allocation of the resources contributing to economic growth and employment (Etan, 1998, 1).

Despite a great variety of research fields in the literature, the issue of innovation within its competitive dimensions seems far from significant research. This chapter is an attempt to fill the gap in the research of innovation and explore the emerging value of innovation phenomenon with a strategic perspective. In this respect, the

paper aims to provide a better understanding of innovation that is required for the potential for providing competitive advantage for banks and insurance companies. The paper proceeds as follows: The first section draws a conceptual framework of innovation. The second section explores the importance of innovation in business, along with various types of innovation and the relationship between innovation and competition. The third section outlines the fundamental innovation strategies that financial services implement in today's financial sector, especially in the cases of the Turkish Banks and Insurance Companies.

BACKGROUND

The most important question for how to create and maintain competitive advantage through innovation has become one of the main strategic concerns of the corporations today. In the new business era, in order to survive in the highly competitive arena not only manufacturing but also service industries need to innovate. This is mostly valid for the financial sector because of its role as a service provider of the economy. Innovation makes a major contribution to the survival of banks. In this context, banks and insurance companies have to redefine their core strategies in a creative manner to acquire sustainability in the market. However, there is a lack of evidence for innovation to provide an adequate discussion for the scholars or corporations. Moreover, the literature is diversified by a number of approaches, prescriptions and practices that can be confusing and sometimes contradictory. The study focuses on exploring the determination of innovation, its theoretical background and the innovation strategies that are discussed in the Turkish Financial Sector, particularly in the banks and insurance companies.

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