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Encouraging Innovation in Organizations - Lessons from First National Bank Group

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Abstract
This study investigates innovation in organizations with special reference to First National Bank Group. Innovation includes ideas, investment, development and implementation with the view to realize benefits for an organization. The literature predicts that innovation leads to an improvement in economic performance of organizations. It also assumes that persistent innovators are mainly organizations of foreign origin with headquarters in other countries. First National Bank of Namibia performed well since 2006 from a financial perspective partly because of innovation efforts that were rolled-out. Incorporating innovation within the performance management system also contributed positively in the process.
Keywords: Innovation, First National Bank, Banking, Economic Performance, Organizations

1. Introduction

Innovation means different things to different people. What is clear from the literature review is that innovation is not just having ideas on people's minds. It is more than creativity. Investment, development and implementation with the view to realize benefits are also important for an organization. All these components combined make the innovation process complete.
This paper aims to investigate innovation in organizations with special reference to First National Bank. Several questions are answered with a view to put things into perspective. What is innovation? What types and sources of innovations are there? What are the success factors with respect to innovation? What are the recent trends in innovation? Is there a link between innovation and firm performance? Which firms are likely to innovate?
A study on innovation should be appealing to Namibia for two reasons. Firstly, there is scarcity of research in this area in the Namibian environment. Consequently, this is an attempt to fill this knowledge gap. Secondly, since it is claimed in the literature that there is a positive relationship between innovation and firm performance, it follows that the information in this paper will be useful to organizations in their quest to improve productivity and eventually realize benefits associated with increased revenue base.
The paper is comprised of the following sections: an introduction to innovation; the literature review; innovation within First National Bank; encouraging innovation in organizations; and concluding remarks. The literature review follows next.

2. Literature Review

The literature on innovation is vast. This is shown both at the theoretical and empirical levels. In this section, a description of innovation is provided after which different types and sources of innovations are distinguished. Internal determinants of innovation are outlined with a link between innovation and firm performance discussed towards the end of the section.
What does innovation mean? Mushtaq, Peng and Lin (2011: 27) define innovation as an internally generated or purchased device, system, policy, program, process, products or services that is/are new to adopting organizations. They assert that innovation is more than just having an idea or earning profits, but rather risk taking and investment are also important in the innovation process. First National Bank Group, which consists of FNB Headquarters in South Africa and subsidiaries in other countries including Namibia, also has a definition on innovation. According to Erling (2011: 3), innovation refers to an idea plus implementation that realizes benefits for First National Bank (FNB).
Serrat (2009: 2) differentiates innovation and creativity. On one hand, innovation is the successful exploitation of new ideas, that is, a profitable outcome of the creative process, which involves generating and applying in a specific context, products, services, procedures, and processes, that are desirable and viable. On the other hand, creativity is the mental and social process of generating ideas, concepts, and associations. The author identifies types and sources of innovation. Types of innovation are divided into product innovations, service innovations, and organizational innovations. Sources of innovation are unexpected occurrences; incongruities of various kinds; process needs; changes in an industry or market; demographic changes; changes in perceptions; and new knowledge.
The above definitions are similar. They focus on generation of ideas as a primary ingredient in the innovation

process. After ideas are generated or captured, they are exploited with certain investments have to be undertaken. The result of which is the implementation of ideas in order to realize benefits or profits. It also follows from the definitions that the innovation process is incomplete without benefits being realized.
Mushtaq, Peng and Lin (2011: 27) show different types of innovations. These are discussed below:

- **Product innovation**. Its objective is to fulfill the requirement of customers or external market.
- **Process innovation**. It is focused on improving productivity and enables organizations to produce fairly large amount of products and services using limited available resources of an organization.
- **Marketing innovation**. This refers to introducing new marketing methodologies such as product design or packaging, placement, promotion and pricing. It focuses on addressing the customer needs and increasing the sales volume of the firm by means of introducing new markets or through positioning a product on the market.
- **Organizational innovation**. It is also referred to as administrative innovation. It is the implementation of a new working methodology in an organization running business practices, systems, processes, workplace, or external relations. In this regard, performance can be achieved through cost reduction and improving workplace satisfaction.

The literature on innovation also provides a picture on what enables innovation to thrive within organizations. For example, Mushtaq, Peng and Lin (2011: 28) state that organizations that have embedded total quality management (TQM) in their organization culture provide a fertile ground for the growth of innovation, as TQM embodies these principles that are similar to the principles of innovation. They further go on to mention that internal determinants on innovation include leadership and management team, organization strategies, culture, firm structure, control activities, functional assets and strategies, and general characteristics of the firms.
Apart from the theoretical literature, there are empirical findings on innovation as well. Some analysts studied empirically the link between innovation and economic performance of firms. While others attempted to find out about which firms are likely to innovate. All these studies employed econometric models to study the relationship between independent variables and dependent variables. Finally, certain studies provide strategies that may be employed to encourage innovations in organizations. Key findings from the selected studies appear below.
Guo and Zhao (2010:16) investigated the relationship between innovation and firm performance in different Chinese manufacturing industries at firm level. They show that there is a significant positive correlation between innovation input and innovation output as well as between innovation output and firm competitiveness after controlling factors such as capital intensity. Another important finding is that the innovation input shows a significant feedback effect and cumulative effect on innovation output. Further, they pointed out that current period innovation investment has the highest effect on the innovation output.
Lööf (2010: 10) first classified firms into three groups: non innovators, temporary innovators and persistent innovators and observed substantial differences between persistent innovative firms and other firms. The author states that persistent innovative firms have a large intensity of both human capital and physical capital and their sales – productivity – and export performance are superior to non innovators and temporary innovators. It was also found that non innovators and temporary innovators are mainly firms located domestically while persistent innovators are part of a multinational company. Another important finding is that there is strong evidence that firms' economic output is correlated with their innovation strategy.
Serrat (2009: 5) provides a list of strategies that can be used to harness innovation in the workplace with the view to promote organizational performance. The author refers to these as components of an effective innovation system. Some of these components or strategies are:

- Clarity in mission statements and goals, which invariably feature a commitment from senior managers to assume responsibility for the risk of failure;
- An organizational culture that values innovation, where there is encouragement for personnel to think differently, take calculated risks, and challenge the status quo;
- The adequate resourcing of innovation in line with strategy;
- The placing of responsibility for innovation on all staff;
- A performance measurement system that measures the innovative pulse of the organization; ensures monitoring and evaluation of inputs, activities, outputs, outcomes, and impacts; and feeds lessons back to the system;
- The instigation of incentives and rewards for innovative individuals and teams;
- Effective dissemination systems; and
- Structured intellectual property management systems that identify, protect, value, manage, and audit the organization's intellectual property.

Innovation and Business Skills Australia (2009: 2) identified five key factors behind the success in innovative businesses. First is to adopt a failure-tolerant leadership style. This means that leaders should encourage employees to put forward their ideas with the expectation that they are implemented to realize economic return for a business. Second is to establish the right business culture. Examples include providing blocks of time, safe places in which to innovate; allowing employees to collaborate with others on a needs basis; and giving employees time to attend conferences, workshops, site visits and to participate in their professional networks. Third is to promote teamwork and collaboration. This includes connections with people and organizations outside the organization combined with those within the organization. Fourth is skills training and development. Trial and error learning and challenging workplace projects promote innovation by opening up discussion and information gathering. Fifth is accessing financial and business support. Funding coupled with support from service providers can assist businesses including new businesses.

The above literature review is important for this study. Some components of the reviewed literature have shaped the structure of the sections that follow. For example, it is clear from the reviewed literature that there are best practices on how innovation can be enhanced in organizations. Furthermore, it is also apparent from the literature review that there is a link between innovation and economic performance of firms. The following section therefore provides specifics about how innovation is being encouraged within First National Bank.

3. Recent Innovation within First National Bank

This section documents innovation experience within First National Bank Group. First National Bank Group consists of First National Bank Headquarters in South Africa and subsidiaries in other countries including Namibia. There is a need to understand the market or industry within which First National Bank of Namibia operates first before other items are discussed. After this is done, discussions move to other areas including values, collaboration, management support, performance management system, reward, ideas generation process, some examples, and innovation and economic performance. Details on these appear below with much reference to First National Bank of Namibia.

3.1 Market Organization

First National Bank operates in highly competitive banking industries in several countries. The situation in Namibia can shade light on this. There are six banking institutions in Namibia established in terms of the Banking Institutions Act, 1998 (Act No. 2 of 1998). These are Bank Windhoek, SME Bank, First National Bank of Namibia, Nedbank Namibia, Fides Bank Namibia and Standard Bank Namibia. While most of the banks provide full banking and payment services traditionally performed by commercial banks, Fides Bank Namibia is a microfinance bank. Further, Fides Bank and SME Bank entered the banking sector recently. Fides Bank was granted a certificate to conduct banking business on 1 February 2010, with its niche market being mainly group saving and lending services (Fides Bank Namibia Limited, 2012:4). It does not currently issue payment instruments to its customers. SME Bank was granted a license to conduct banking business by the Bank of Namibia on 30 November 2012 (Bank of Namibia, 2012:1).

Bank Windhoek and SME Bank are the only banks of domestic origin. The other banks are originally from outside Namibia. In terms of assets, First National Bank Namibia is the biggest bank in Namibia.

3.2 Values

Like any other corporate citizen, First National Bank of Namibia has values that form part of its culture. These are viewed as standards that shape behavior of employees within the organization. Innovation is one of the values. Others are respect, accountability, integrity and passion. These taken together are useful in achieving the mission and vision of the entity.

It should be pointed out that innovation is embedded in the strategic framework of FNB. The strategic pillars within the framework include efficiency, people, customer service and partnership with stakeholders. The organization is convinced that these pillars are central to the realization of its goals and objectives. Using the customer pillar as an example, FNB strives to exceed customer expectations (FNB Namibia Holdings, 2011:20). This has the effect of not only retaining existing customers but attracting new ones as well.

Innovation is key to realizing efficiency within the operations of FNB. It is run annually and has led to major efficiency gains and cost savings. In this regard, implementing few ideas led to a cost saving of close to NAD5 million (FNB Namibia Holding, 2008: 21) in the past. Further, cost to income ratio has been maintained at 48 percent despite a squeeze in margins (FNB Namibia Holdings, 2011:23).

It can be concluded from the above mentioned paragraphs that innovation should first become a value within an organizational culture setup before it can be promoted. This is because it might be a challenge to encourage employees to innovate if innovation is not part of its values. Identifying innovation as one of the values is analogous to saying that it is one of the priority areas that should be addressed.

3.3 Collaboration

This is closely related to values and has to do with working in partnerships. It is worthwhile to discuss it separately because it carries a significant weight in the innovation process. It is easy to generate an idea and it is a challenge to implement it if done in isolation. For example, someone who works in a support area cannot implement an idea if colleagues from business are not involved. Business or operational personnel are more glued to challenges on the ground compared to people from support and strategy areas. FNB Namibia encourages partnerships as employees working together can achieve more than working in isolation.

3.4 Management Support

Management support is paramount for any innovation attempt to work. This ties well with the discussion on values in the preceding section. Top management crafts values within an organization. There is top management support on innovation within First National Bank because innovation is one of its values as indicated above. This can be demonstrated by what Advocate Vekuii Rukoro, Group Chief Executive Officer of First National Bank Namibia Holdings, once said: "we will continue to promote the First National Bank innovation staff program with the theme *bring ideas together*" (FNB Namibia Holdings, 2008:25).

A firm's organizational structure should also support innovation. There must be a custodian of innovation within a structure, preferably at management level, to coordinate an innovation program. As an example, First National Bank has appointed a resource responsible for driving innovation within the Group in Namibia. This person receives ideas that have been captured via computer means and oversees the process until implementation. Only ideas that are worthwhile are implemented.

3.5 Performance Management System

The performance management system plays a key role in the innovation process within First National Bank. This system incorporates goals setting; goals sign-off; monitoring performance; performance appraisal and rewards. Rewards are awarded if satisfactory performance has been achieved.

Each staff member is encouraged to log an idea during the performance cycle. This means that innovation is part of the accountability of each staff member in the spirit of nurturing this value within the bank. Incorporating innovation within the performance system has encouraged staff members to log ideas because doing so contributes positively to the overall performance score during the performance cycle.

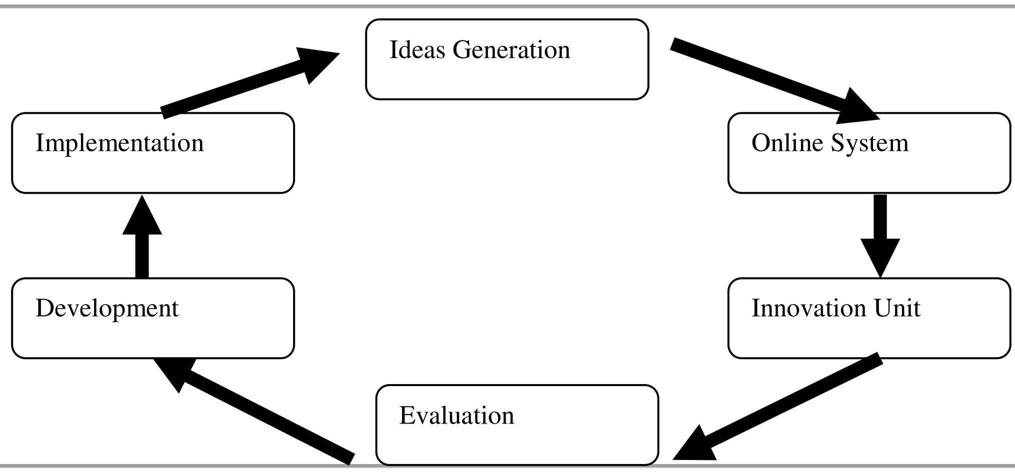
3.6 Reward

Each innovation is rewarded within the First National Bank. The reward is in the form of money for each innovation implemented. Monetary reward has several advantages. First, the employee becomes motivated to do more next time when an opportunity to log innovation arises. Second, the reward can lead to the fulfillment of own needs and needs of families of innovators. Third, the employer also benefits. This is because although innovation can result in a situation where costs are incurred in the short run, revenue can accrue to the firm after an idea has been implemented.

3.7 Ideas Generation Process

Innovation is a process. It is shown in the literature review that having an idea is not enough. Other activities need to take place in order to complete the process. Organizations cannot reap benefits should the process stop at ideas generation. Implementation and required investments need to be undertaken in order to realize stated benefits. These benefits can be in the form of profits or efficiency gains.

Figure 1: Ideas Generation Process



Source: Own drawing.

Figure 1 shows that innovation within First National Bank starts with an idea in mind. An idea is then logged onto an online system before a custodian on innovation receives the idea that was captured. A staff member needs username and password to access the system. What follows is that ideas are evaluated and those that are worthwhile pass onto the next stages, that is, development and implementation. Monetary rewards are provided to deserving employees.

3.8 Recent Innovations

First National Bank implemented different types of innovations in recent years. Implementation was across divisions, departments and business units. Ideas that were implemented are many. Some ideas were aimed at improving internal processes while others were rolled out to improve customer service. Further, while certain ideas lead to an increase in revenue, others caused costs to decline. Examples of innovations that were implemented, among others, include:

- **inContact service**. With this service, First National Bank customers receive a message via a cellphone whenever there is a movement on their primary account, that is, current account. An sms is received if there is a credit or debit onto or from an account involving amounts above a predefined threshold. Further, the account holder receives an sms if he or she accesses their account. Fraud reduction was also a key reason as to why this service was implemented.
- **Customer complaints system**. Timely and adequate feedback on customer queries is one of the important principles underlying good customer service. The system was introduced in order to have a central database for customer complaints. This system was deployed in branches and other areas within First National Bank. Follow ups on issues and feedback to customers take place once complaints are logged.
- **Airtime purchases**. Customers of First National Bank can now buy airtime via their cell phones. They follow a certain procedure on their cell phones after which a voucher is received via sms. The funding account is debited with the account of the mobile network service provider credited. At the end of the period customers receive statements on their accounts.
- **Electronic Wallet**. First National Bank introduced the electronic wallet (eWallet) service as per requirements of the regulators. The service allows banked customers to send money to unbanked and underbanked recipients via multiple channels including cellphone banking, automated teller machines (ATMs) and online banking. The recipient uses a code received via a cellphone to withdraw funds from the nearest FNB ATM, consequently avoiding a need to have a bank account in this segment of the market.

3.9 Innovation and Economic Performance

It is important to touch on the link between innovation and financial performance from First National Bank perspective. The literature predicts that innovation leads to an improvement of economic performance of a firm. Economic performance of a firm can be measured using several indicators including income, cost-to-income ratio and productivity.

The following figure provides statistics on innovation at the level of First National Bank Group (First National Bank South Africa and its subsidiaries). The last two rows on cost-to-income ratio and productivity contain figures from First National Bank of Namibia.

Table 1: Innovation, Cost to Income Ratio and Productivity

Category/Year	**2010**	**2009**	**2008**	**2007**	**2006**
Ideas logged	8528	6227	6700	5663	3531
Innovations implemented	779	641	720	508	375
Cost-to-income ratio (%)	48.9	50.5	48.1	48	49
Productivity (NAD)	423,227	446,514	455,340	417,634	337,055

Source: Erling (2011: 15) and First National Bank of Namibia Holdings (2011: 33).

The above table shows that innovations that were implemented in 2006 leveled at 375 compared to 779 in 2010. It was mentioned in the previous section that innovation contributed to cost containment in First National Bank of Namibia. In this regard, cost-to-income ratio was registered at around 49 percent during 2006 to 2010. The productivity of employees also improved from NAD337 thousand in 2006 to NAD423 thousand in 2010. Productivity was calculated by taking net interest income divided by number of staff.

4. Encouraging Innovation in Organizations

Organizations that would like to promote innovations should ensure that innovation is part of their organizational culture. This means that innovation must be embedded within their structures. In this way employees are likely to be encouraged to log ideas should there be an incentive scheme in place in the form of appraisals and rewards for good performance. Absence of these, will lead to a situation where innovation is discussed but without tangible benefits that are realized out of the corporate discussions.

All other points mentioned in section 3 above are relevant in bringing about a situation where innovation drive is nurtured within organizations. Top management support is paramount in the innovation process as is the necessity of ensuring that there is manpower responsible for coordinating innovation attempts within a workplace. As already mentioned, management support is important to ensure that innovation is understood, accepted and practiced at every level in an organization.

Challenges are likely to be experienced during the implementation of an innovation program. These challenges can include delays in implementing ideas; lack of support from co-workers; some ideas not implemented; different role players involved in the process to implement an idea; and even funding problems. It should be noted that these challenges do not matter in a situation where a particular idea is likely to increase revenue or reduce cost of the firm after implementation. It should be noted that cost reduction also increases revenue.

5. Concluding Remarks

This paper investigated innovation within FNB Namibia. It is pointed out that innovation is not just about having an idea. Investment, development and implementation are also key. Innovation is not complete without all necessary ingredients. The link between innovation and firm performance was highlighted as is the question on which firms are likely to innovate. In addition, best practices on innovation were also highlighted in the paper.

The innovation process mentioned here-in will be useful to organizations that value efficiency within their operations. Innovation contributes to efficiency in terms of introducing better ways of doing things. Performance management and rewards are important in the process. In this way, employees are likely to improve on their current performance.

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