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FORMATION OF THE INNOVATION–ORIENTED ORGANIZATIONAL STRUCTURE OF THE BANK

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Abstract: in the article the organizational prerequisites for successful innovation in banks are defined and the necessity of introducing process–project structure is justified.

Keywords: bank, innovation management, innovation strategy, organizational structure, innovation unit, process–project approach.

At the present time, banks are actively engaged in innovations, but the last become a source of growth only through creation of an enabling environment for their implementation. Therefore, special importance is the strategic management of the innovation process, which directs banks to create maximum customer value, allows to respond flexibly to changes in the environment, provide and maintain a competitive advantage in the long run.

Achieving the objectives of innovation strategy requires an efficient mechanism for its implementation. However, these issues are not yet the subject of a special analysis in economics; hence

there is the need for their in-depth research to provide, on the basis of international experience, practical guidelines for domestic banks. Targeting the entire bank to implement the chosen innovation strategy is achieved by the design of its organizational structure, which would be adequate innovation goals and objectives of the bank.

In terms of innovative activity, there is no doubt that the generated set of organizational elements and their interaction significantly affect the efficiency of the strategy implementation. They can be both a means of promoting the innovative purposes, and a factor that impedes the implementation of the innovation strategy. Strategy implementation improvement is, in particular, to create such bank's organizational structure that would best enforce innovative programs because of its flexibility, the possibility of informal relations, maintaining initiatives, open communications, and the free exchange of information.

The problem of the organizational support for the implementation of commercial banks' innovative strategies has, in our opinion, two aspects. Firstly, it is necessary to decide in what way and at what level will be the management and coordination of innovation. Secondly, we should design and implement bank's organizational structure, which would be most favorable both for execution of operations, and to implement the innovation process.

Regarding the first aspect it should be noted that the model of bank's innovation management can vary significantly depending on the senior management vision of the place of innovation in its activities, general approaches to the formation of the structure of the bank, and its financial capabilities. In the leading foreign banks innovation leadership relates to the highest level of management and is often concentrated in the hands of top manager in the rank of Vice President or the Chief Innovation Officer (CIO). This practice is fully consistent with P. Drucker's assertion that all innovation, especially aimed at creating new businesses, new products or services, must usually be controlled by "responsible for innovation" senior manager rather than by lower rank managers [1].

With regard to domestic banks, conducted interviews with 120 bank managers gave the following results. The fact that there is no proper management in general, reported only 7.5% of respondents. Remaining responses distributed almost equally among three options – execution at senior management level, at strategic planning department level, separately for each line of business. If we take into account the type of bank innovation strategy, the representatives of banks with actively offensive strategy often pointed out innovation management at the level of strategic department (45.2%), with moderately offensive strategy – at business units (38.8%), and with expectant strategy – almost unanimously (86.4%) attributed it to the level of senior bank management, probably just due to the lack of any structural units of the relevant functions.

It should be noted that banks use different organizational approaches to innovation. They learn from successful innovative companies from other sectors of the economy, where two models of innovation organization and management are typically used. The first of them – «skunk works», the small research units that operate with little oversight by management, are most typical for high-tech companies. Here ideas appear and are developed with a maximum degree of autonomy and minimal management intervention.

Another model that is more acceptable to banks is called "innovation hub", i.e. innovation center, where all proposals are collected, reviewed and critically assessed. In this case innovation management is carried out on a formalized basis, special attention is paid to the processes of screening (selection) and filtering the ideas coming from different sources and the number of which can be very large. The lack of centralized innovation management in banks may cause excessive multiplicity of criteria for evaluating projects, chaos and increased riskiness of their implementation, unproductive competition for resources.

Thus, the banks are advisable to create a separate business unit, which is responsible for the entire process of innovation development and implementation, which has constantly working staff and is subject to senior innovation manager. It also performs the functions of coordinating, identifying possible problem areas and local conflicts of interest.

The effectiveness of Bank of America's Innovation & Development Team is evidenced by the following: within a few years after its creation two hundred new ideas and proposals were received and analyzed, forty have been tested in practice, thirty-six of them were successfully implemented and twenty – recommended for use across the bank's network in the whole country [2, p. 119].

Another option of managing the innovative strategies implementation is the formation of relevant units as parts of business areas, including corporate or retail businesses. It demands the creation of a clear mechanism for integration and coordination of units' activities, their cross-functional interaction during innovation development and implementation. The analysis of the organization structures of the most

innovative Ukrainian banks, among them Privatbank, UkrSotsbank, Raiffeisen Bank Aval, Alfa-Bank and others, proved that this model was typical for the domestic banking system.

Another aspect of organizational support for implementation of innovation strategy is to develop a structure of the bank, which would be in general innovation-oriented. This issue is certainly more complex and more important as it combines the ensuring of not only innovative efficiency, but, above all, the efficiency of core activities of banks. We can say that the aim of organizational change should be to bridge the gap between the capabilities of bank and its corporate strategy, which nowadays has an essential innovation component.

For a long period functional organizational structure was the most common for the Ukrainian banks. However a leading European expert on banking innovation P. Vermeulen called it one of the major barriers to innovation implementation, especially product innovations [3]. A partial solution to these problems was the creation of divisional structures oriented on certain types of banking products (e.g. mortgages), or needs of some customer groups (corporate, retail business). The bank with such a structure uses the decentralized style of management. The focus on serving specific customer groups enables a comprehensive approach to solving their financial problems, encourages the exchange of information, and thus creates the conditions for promotion of innovations. But adaptive organizational structures are considered to be most conducive for this.

They are created by banks on a temporary or permanent basis to address specific tasks in order to adequately respond to new developments in the economy, adapt to the changing conditions. Within the project structure the groups are formed with specialists in different areas, which are transferred from the existing units. Project teams work quite autonomously within specific budgets and are managed by a leader who always is endowed with the necessary powers.

It can be argued that the following organizational features do not provide effective implementation of innovation strategies: organizational structure, which has lagged behind the development of the company; excessive centralization; authoritarian management style; predominance of vertical information flows; complexity of cross-functional cooperation and coordination of interests of innovation processes' participants. Conversely, flexible organizational structure, democratic management style, the predominance of horizontal flows of information, decentralization, autonomy create favorable innovation climate.

In our opinion, these conditions are provided by the introduction of the process approach, which is based on the fact that the organization is not seen as a set of operation and management functions, but as a set of various business processes. Transform the organizational structure in line with business processes actually means to link the activities of each unit to the achievement of the ultimate objective of the bank, put the success of individual business unit in dependence with the success of the bank as a whole as an organization that creates and sells on the market bank products to meet the financial needs of the customers.

At the same time it should be noted that absolutely incorrect to contrast the functional and process structures, as they are only the different perspectives which characterize the internal environment of a bank giving an answer to the questions "what to do" and "how to do". When focusing on the process approach there formed the horizontal management component providing a set of interrelated activities that give specific results that customers need. In this case functions do not disappear, and organically include in the process implementation, turning in the set of roles carried out by the bank employee according to the description of each process.

Thus, we can predict that the development of organizational and management structures of banks that intend to implement or are already actively implementing offensive innovation strategies, will create a fundamentally new model: process-project structure. In our opinion, it in the best way meets the strategic objectives and provides innovative organizational flexibility and adaptability to the financial institutions.

In this case, the core activity of the bank will be based mainly on process approach. Innovation component will be implemented through the creation and functioning of individual project teams. The characteristics of the process approach in management that simultaneously contribute to promotion of innovations are: reduction of the number of decision-making levels, broad delegation of powers and responsibility to the executors, increased emphasis on providing quality of service, automation of business processes etc. Coordination of innovation programs will rely on a single center, which in line with the strategic objectives will set up or disband project teams, organize their work, and provide an integrated set of effective tools of innovation strategies' implementation.

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