UDC 336.71=111

L.V. Kokh

PROBLEMS OF EVALUATION OF INNOVATIVE BANK ACTIVITY

Л.В. Кох

ПРОБЛЕМЫ ОЦЕНКИ ЭФФЕКТИВНОСТИ ИННОВАЦИОННОЙ ДЕЯТЕЛЬНОСТИ БАНКА

This article describes the key principles of the effective management of innovation activity. Reasons for the use of the system of indicators of efficiency of innovative bank activity are revealed. Requirements to the corporate system of KPI of innovative activity are justified. Balanced scorecard as the most appropriate method to evaluate the efficiency of innovative bank activity is proposed.

BANK. INNOVATIVE BANK ACTIVITY. EFFICIENCY. EVALUATION.

Сформулированы ключевые принципы эффективного управления инновационной деятельностью. Выявлены причины использования системы показателей эффективности инновационной деятельности банка. Обоснованы требования к корпоративной системе показателей эффективности инновационной деятельности. Предложена сбалансированная система показателей как наиболее приемлемый метод оценки эффективности инновационной деятельности банка.

БАНК. ИННОВАЦИОННАЯ ДЕЯТЕЛЬНОСТЬ БАНКА. ЭФФЕКТИВНОСТЬ. ОЦЕНКА.

A lot of banks have recently begun to regard their ability to evaluate products and services, to offer customers technology-based banking services and to promptly modify their market behavior as a major success factor. Ultimately, it all comes down to the execution of a bank's development strategy which greatly depends upon innovative services, products and technologies. Thus, innovation in banking is gaining significance and will become even more important in the new economy.

Innovative processes must be manageable. When applied to banking, the key principles of efficient innovation management have been formulated as follows.

1. *The principle 'scale of novelty'* determines how novel the innovation is.

2. *The principle of potential* asserts that the innovation should conform with the bank's strategic plans and be implementable.

3. *The principle of client-centeredness* manifests that innovations in banking are to be primarily aimed at customers.

6. *The principle of outdistancing* states that with banking innovations it is essential to anticipate your clients' needs and keep up with your innovative customers.

5. *The principle of feasibility (or the principle of resource endowment)* means that the innovation is theoretically feasible, i. e., physical, financial and human resources required for putting the innovation into practice are readily available.

6. *The principle of institutional clusters of innovative ideas* implies that efficient innovation management in a bank requires setting up specialized departments of research and development in charge of innovative projects.

7. *The principle of time limitation* emphasizes the importance of establishing the project execution timeframe, from the time an application is received until the innovation is a part of banking practices.

8. *The principle of measurability* assumes that there must be an innovative performance measurement system using both quantitative and qualitative indicators.

9. *The principle of efficiency* means that the above-mentioned measurement system of quantitative and qualitative indicators can help to assess the practicality of the implemented innovations and the efficiency of innovation management.

As the principles of measurability and efficiency manifest themselves in the banking context in many ways and are of vital importance, the problem of evaluating bank performance amid vigorous innovative activity requires detailed consideration.

The application of the measurability and efficiency principles calls for the creation of a balanced scorecard system that would assist in determining a company's aptitude for innovative decisions.

The need for a scorecard system of the innovation performance measurement in banking arises due to the following reasons.

1. The system of innovation performance measurement indicators is based on objective numerical data that allows for quantitative performance assessment of innovation and calculation of innovation-related costs; in the end, it is the data that leads to purposeful managerial decisions.

2. Utilizing a scorecard system of innovation performance is in the company's strategic interests. An innovation process should be an integral part of the core business processes. Banking activities should constitute a coherent whole aimed at achieving stated objectives.

3. Exploiting innovation performance indicators can facilitate the equitable allocation of resources to 'traditional' and innovative business activities. Thanks to innovation performance indicators it is possible to find out if the innovation performance lived up to expectations by comparing the actual indicators with the target ones.

4. Innovation performance indicators can be used to encourage employees to take the initiative.

A corporate balanced scorecard system of innovation performance evaluation should meet the following requirements.

1. There should not be too many indicators, as the evidence provided by successfully operating systems shows that, at the executive level, it is best to have no more than eight to ten indicators to work with.

2. When establishing a system, one should select those indicators that are, firstly, independent and, secondly, are focused on different aspects of innovation processes.

3. A scorecard system should comprise both quantitative and qualitative data.

4. A system of innovation performance measurement indicators has to be integrated into a corporate bank performance evaluation system.

5. Creating autonomous scorecard systems of innovation performance for each structural department of the bank is unacceptable. In case an autonomous innovation performance system is allocated to a separate department, it should conform to the whole bank system, i. e., the general-to-specific approach is to be followed.

6. First and foremost, a system of innovation performance measurement indicators should satisfy the requirements of a customer-centric approach adopted by a bank. If a bank's policy is driven by profit-and-loss reports, it is bound to put increased emphasis on cost saving. Should this happen, there will not be much of a chance for competitive growth. Innovation performance indicators are intended to show customer satisfaction with innovative products, services and technologies supplied by the bank. In this instance, it is advisable to consider the following indicators:

– the ratio of customers using banking innovation to the total number of the bank's customers;

– the ratio of customers regarding the bank as innovative to the total number of the bank's customers.

7. Continuous assessment of the utilized innovation performance indicators is of critical importance. As the development process never stops, some indicators may cease to be relevant or require different computation algorithms.

8. A scorecard system is meant to reveal reasons for both success and failure of innovation processes, thus minimizing the risk of future errors.

Establishing a system of innovation performance indicators is a challenging task. According to a recent survey by PricewaterhouseCoopers, almost a half of top managers among 355 North American private companies attempt to measure innovation with a system of quantitative indicators. The following criteria were used to measure success of innovative decisions: impact on company revenue increase (78 %), customer satisfaction (76 %), revenue increase from new products (74 %), performance improvement (71 %), profitability dynamics (68 %). At the same time, organizations use different approaches to measure their innovative activity, and few of them use a reliable scorecard system which is well integrated in the strategic vision of the company [7, 11].

Considering the implementation of innovation, the majority of executives discourse on market share, customer satisfaction, improvement of customer service, product diversification, but when it comes to the execution phase of a specific project, the whole problem comes down to figures, that is what the impact of the innovation will be, how to weigh up the merits of one project versus the other and choose the most beneficial one. Business performance is measured by profit markup, revenue increase and growth of earnings from new products. Nevertheless, such innovation indicators as customer satisfaction, market share gains and competitive growth may also be utilized to assess the company performance, as business has to operate in the new information economy. This implies that, in the given context, a new approach to understanding and evaluating innovative performance of any business, including the banking sector, has to be adopted.

It is certainly possible to use traditional expensive measurement methods in the age of the new economy, but the question is whether this approach will provide an objective appraisal of quite an intricate effect of information technologies and innovative processes on the final result of a company's activities.

One of the distinguishing characteristics of the new economy is that service industries, including financial services organizations, start to account for the largest share of GDP. Performance evaluation of these industries is not so much a quantitative as a qualitative concept. The traditional performance measurement system relies on the statistical methodology which renders it unable to evaluate such essential phenomena of the new economy phenomena as dynamism, focus on innovation, and adaptability. As a result, the traditional system based on economic indicators fails to encompass the factual information technologies performance while tending to statistically undervalue it.

'The irony is,' says Erik Brynjolfsson, a world renowned expert on high-technology industries, 'that while we have more raw data today on all sorts of inputs and outputs than ever before, productivity in the information economy has proven harder to measure than it ever was in the industrial economy.' [8]

So, performance evaluation in the new economic reality requires a new up-to-date measurement framework. Only then can the existing, but not yet fully recognized, economic impact of the new economy be evaluated objectively.

All of the aforesaid is applicable to banking with its current trend towards innovation. Also, innovation performance in banking should be evaluated with due regard to the strategic goals of the bank. Criteria for innovation performance in banking should include financial results of innovation (income and profits, return on innovation) as well as all the set of bank performance indicators (competitiveness, liquidity, credibility, risks) with consideration for their financial value and consistency with the objectives relevant to the bank and its socio-economic environment. When evaluating performance, it is vital to take into consideration the whole range of individual advantages and achievements (that are of critical importance for any bank) all of which can hardly be identified by applying mathematical 'resources-costs-results' models. In such a manner it is possible to retain the most valued customers while attracting new ones, to expand service offerings for primary customers, to increase the speed of transactions and to enhance banking security.

The whole range of criteria is to be regarded as a system or a combined characteristic that reflects the correspondence of a commercial bank's objectives with its observed performance at any given moment. Therefore, only meeting all the criteria makes innovation efficiency of the bank obvious.

The information economy has predetermined the emergence of new tools that allow to measure innovation performance by making use of quantitative as well as qualitative indicators.

Current bank performance evaluation systems appear to be a new tool providing a bank with a path to long-term success. Such systems constitute a strategic management system which enables resources allocation, personnel management, data collection and the improvement of management processes. Every element of this system is related to the very essence of business: acquisition of new customers, a diversification of new products and service lines, intangibles including, increased brand value, etc. There are a lot of ways to bring specific performance indicators together constructing a comprehensive system instrumental in company management.

One of the most well-known mainstream evaluation methods in banking is the Balanced Scorecard that efficiently aligns a company's daily activities to its strategic objectives [1–6, 9, 10, 12].

In general, the algorithm for the model of bank performance evaluation and its innovation activity can be presented as the following process:

– setting up a mission and strategic goals of the bank activity;

– the mission and bank strategy underlie the development of a strategy for each bank unit;

– working out the hierarchy of goals aimed at the mission achievement, where the bank innovation activity is positioned at the level of strategic goals.

Afterwards, it is necessary to move on to key indicators of the bank performance. The importance of the key performance indicators is determined in the following terms:

– clear and precise tools to evaluate each bank unit;

– annual transparent indicators of each bank activity;

– key performance indicators with 80 % referring to standard bank processes and 20 % referring to deviations;

– necessity of the operating system to manage long-term motivation of the staff.

The system of key performance indicators shall take into account four projections (finance, customers, business processes, staff training). At the same time, a number of indicators characterize the local goal achievement by a bank unit, whereas other indicators reflect the goal achievement by the bank as a whole.

The next step for working out the system of key performance indicators is to set up norms (acceptable in a given period) for the indicators, to draw up techniques for their computation and to create the system of data collection.

On completing the process of working out the system of key performance indicators (KPI) for all divisions, it is necessary to verify the whole KPI system, to set up the balance which has to be changed according to the number of transactions, planning indices, and common banking priorities.

The KPI system will help managers of business units to solve the following problems:

– delegating authority and controlling key parameters, which will allow the manager of a business unit to focus on his/her responsibilities;

– improvement of business unit budgeting;

– staff quality improvement;

– maintaining and improving the status of a business unit;

– transition from the reactive performance to proactive performance;

– decisions about priorities in managers' and subordinates' performance.

The balanced system of indicators will allow top managers to discuss the issues of current performance and future goals. This method will encourage top managers to reflect on opportunities, on potential revenues, on evaluation techniques of future bank results.

The bank innovative performance can be evaluated using the existing balanced KPI system. Launching an innovative product within a single direction (e. g. in retail), it is necessary to add modifications in order to evaluate the overall effect of the innovation. Correcting the bank strategy will be essential only in case the bank launches an absolutely innovative service, unavailable in the bank business before (e. g. entrance of clearing banks to the stock market). Correcting the strategic goals of a business unit, affected by the innovative product, is feasible and shall be fulfilled.

Most significant modifications and corrections will be made in the KPI system. If a bank launches an innovative product or service, it is likely to have to introduce new indicators targeted at the evaluation of the innovative solution.

Having analysed the necessity and feasibility of bank innovative performance evaluation, the following conclusions have been drawn:

– necessity of launching innovations to improve the bank performance has been validated;

– principles of the effective bank innovative performance have been suggested;

– reasons for the necessity to use the indicators system of bank innovative performance have been identified;

– compliance requirements for the indicators system of bank innovative performance have been worked out;

– as the traditional performance evaluation techniques do not allow to measure the innovative component of the new economy, a need to create new tools relevant to the current information era has been justified;

– in order to evaluate the bank innovative performance, the possibility to use the method of the balanced system of indicators (BSI), which allows to correlate strategic and operating goals of a bank has been validated.

– The research results are of practical importance, because they can be widely used in the development of the evaluation system of bank innovative performance.

REFERENCES

1. **Kaplan R., Norton D.** Development of balanced indicators system. Guidelines. Moscow, Olymp Business, 2007. 128 p. (rus)

2. **Kaplan R., Norton D.** Balanced indicators system. From strategy to action. Moscow, Olymp Business, 2006. 304 p. (rus)

3. **Kaplan R., Moscalenko I.** Secrets of BSC usage from Robert Kaplan. URL: http://www.iteam.ru/publications/strategy/section_27/article_1294

4. **Kaplan R., Norton D.** Strategic scorecards. Transformation from intangible assets to tangible results. Moscow, Olymp Business, 2005. 512 p. (rus)

5. **Kokh L.V.** Balanced ScoreCard and the evaluation of efficiency of banking innovations. *Scientific and practical journal «Siberian financial school»*. 2008. № 6.

6. **Nikonova I.A.** Strategy and cost of the clearing bank/ I.A. Nikonova, R.N. Shamgunov. Moscow, Alpina Business Books, 2004. 304 p. (rus)

7. **Khomutsky D.** How to measure innovations? *Company management*, 2006, no. 2, pp. 50—53. (rus)

8. **Brynjolfsson E.** Beyond the productivity paradox: computers are the catalyst for bigger changes. *Communications of the ACM*, 1998, vol. 141, no. 9, p. 49.

9. **Kaplan R., Klein N.** Chemical bank: implementing the balanced scorecard. USA, Harvard Business School Press, 1995. 19 p.

10. **Kaplan R.S, Norton D.P.** The strategy — focused organization: how balanced scorecard companies thrive in the new business environment. USA, Harvard Business School Press, 2001. 416 p.

11. **Shchedrova M.A.** Problems of innovative activity of the industrial enterprises. *St. Petersburg State Polytechnical University Journal. Economics*, 2012, no. 6 (161), pp. 137—139. (rus)

12. **Savinova E.A., Chernovalov S.S.** Aspects and stages of forming an effective risk management in banks. *St. Petersburg State Polytechnical University Journal. Economics.* 2012, no. 4 (151), pp. 190—193. (rus)

СПИСОК ЛИТЕРАТУРЫ

1. **Каплан Р., Нортон Д.** Разработка сбалансированной системы показателей. Практическое руководство с примерами. М.: Олимп-Бизнес, 2007. 128 с.

2. **Каплан Р., Нортон Д.** Сбалансированная система показателей. От стратегии к действию. М.: Олимп-Бизнес, 2006. 304 с.

3. **Каплан Р.** Секреты применения BSC от Роберта Каплана; подготовил И. Москаленко. URL: http://www.iteam.ru/publications/strategy/section_27/article_1294

4. **Каплан Р., Нортон Д.** Стратегические карты. Трансформация нематериальных активов в материальные результаты. М.: Олимп-Бизнес, 2005. 512 с.

5. **Кох Л.В.** Система сбалансированных показателей и оценка эффективности банковских инноваций // Сибирская финансовая школа. 2008. № 6.

6. **Никонова И.А., Шамгунов Р.Н.** Стратегия и стоимость коммерческого банка. М.: Альпина Бизнес Букс, 2004. 304 с.

7. **Хомутский Д.** Как измерить инновации? // Управление компанией. 2006. № 2. С. 50—53.

8. **Brynjolfsson E.** Beyond the productivity paradox: computers are the catalyst for bigger changes // Communications of the ACM. 1998. Vol. 141, no. 9. P. 49.

9. **Kaplan R., Klein N.** Chemical bank: implementing the balanced scorecard. USA: Harvard Business School Press, 1995. 19 p.

10. **Kaplan R.S., Norton D.P.** The strategy — focused organization: how balanced scorecard companies thrive in the new business environment. USA: Harvard Business School Press, 2001. 416 p.

11. **Щедрова М.А.** Проблемы инновационной деятельности промышленных предприятий // Научно-технические ведомости Санкт-Петербургского государственного политехнического университета. Экономические науки. 2012. № 6(161). С. 137—139.

12. **Савинова Е.А., Черновалов С.С.** Аспекты и этапы формирования эффективной системы управления рисками в банке // Научно-технические ведомости Санкт-Петербургского государственного политехнического университета. Экономические науки. 2012. № 4(151). С. 190—193.

КОХ Лариса Вячеславовна — заведующий кафедрой «Международные экономические отношения» Санкт-Петербургского государственного политехнического университета, доктор экономических наук, профессор.

195251, ул. Политехническая, д. 29, Санкт-Петербург, Россия. E-mail: lkokh@mail.ru

KOKH Larisa V. — St. Petersburg State Polytechnical University.

195251. Politechnicheskaya str. 29. St. Petersburg. Russia. E-mail: lkokh@mail.ru